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PRESENTATION

Operator

Good afternoon, and welcome to the E*TRADE Group, Inc. second quarter 2002 earnings conference call. At this time, all participants have been placed on a listen-only mode, and the floor will be opened for questions following the presentation.

I would now like to turn the call over to your host, Len Purkis, Chief Financial Officer. Sir, you may begin.

Len Purkis - *E*Trade Group, Inc. - Chief Financial Officer*

Thank you, and good afternoon. Thank you for joining us on the second quarter 2002 conference call for E*TRADE Group. I'm Len Purkis, Chief Financial Officer of E*TRADE Group, and I'm joined here today by Christos M. Cotsakos, Chairman of the Board and Chief Executive Officer, along with Mitch Caplan, President and Chief Operating Officer.

We've been advised to begin this call with the standard Safe Harbor statement.

During this conference call, we will be sharing with you certain projections or other forward-looking statements regarding future events of the future performance of the company. As always, we caution you that certain factors, including risks and uncertainties referred to in the 10-K, 10-Qs and other reports we periodically file with the Securities and Exchange Commission, could cause our actual results to differ materially from those indicated by our projections or forward-looking statements.

This call is being taped. The recording will be available by telephone beginning at 5:30 p.m. Pacific time today, through 5:30 p.m. Pacific time on July 26th. The call is also being Webcast at www.etrade.com. No other tape recordings of this call or copies of the taping are authorized or may be relied upon.

I'll now turn the call over to Christos. After that, I'll provide you with more specific details on our financial. And Christos will make a few closing remarks and open this briefing to questions.

Christos Cotsakos - *E*Trade Group, Inc. - Chairman Of The Board/CEO*

Thanks Len. And thanks everybody for joining us on today's call.

The team and I are very pleased to announce our eighth consecutive quarter of ongoing profitability, at 11 cents earnings per share from ongoing operations.

We were cash flow positive, we improved interest rate spread, we saw continued success in our cross-sale and up-sale initiatives, and we continued to streamline our very successful business model.

These accomplishments are even more significant given the extremely challenging operating environment that all of us face. The financial market recovery did not materialize as investor confidence was hit by geopolitical economic markets and business uncertainties.

We saw companies in our industry segment pre-announce mis-earnings forecasts, while others, including many of the large brokerage houses, abandon the online sector all together, due to their incompatible business models and lack of profitability.

At E*TRADE Securities, we continue to make the strategic investments to expand and diversify our customer base, and to strengthen our presence in the active trading segment.

With the addition of Tradescapes, 83,000 average daily transactions for just the month of June, our average daily transactions for the quarter totaled 109,000, and our run rate exiting the quarter doubled to 166,000. This run rate makes us the leader in the online brokerage industry, as measured by average daily transaction.

The Tradescapes acquisition provides our active traders 20 onsite locations, in addition to the New York center, to conduct their trading. We have already made progress in our migration plan to populate our E*TRADE financial centers with professional traders. We now have over 40 professional traders, trading onsite, at our New York center, with an additional 20 professional traders expected by the end of the summer.

They are using the market leading technology platform, L i g h t s p e e d (ph) . And we expect a transition more traders into E*TRADE financial centers throughout the country by year-end.

Now we undertook additional initiatives that increased revenues generated by E*TRADE Institutional. We are executing on an strategic, two-phase initiative, around equity research.

In phase one, we recruited an independent research team, formerly from Credit Lyonnais, to provide objective, proprietary, and independent research to our Institutional customer base. In the coming months, our team of six will initiate coverage of over 80 U.S. and European stocks, representing $800 billion in market capitalization, and a pharmaceutical, retail, leisure, technology, and chemical industry.

The announcement of this new service has generated significant interest among our existing Institutional customers, and potential new clientele, because of the elevated relevance of unbiased , objective research in today's environment.

Now, in phase two, we will leverage what we have already built for our Institutional customers, and make it available to our retail customer base. This group will allow us to off that same personalized, unbiased, independent, objective research to our retail customers with minimal incremental spend.

And to take advantage of the growing demand from Institutional traders for direct access to global markets, we are in beta testing with a new electronic trading platform to provide direct access to markets in France, Germany, Switzerland, The Netherlands, and the U.K.

We also continue to enhance the value proposition offered to our global retail brokerage customers. We introduce market trader active trading platform in Germany and Hong Kong, provide these customers access to the same Web capabilities as their U.S. counterparts.

Now domestically, we continue to enhance our distribution channels to provide greater convenience for our customer household. The company opened an additional seven E*TRADE financial zones, spreading our total to 37 in eight states, with an additional six zones slated to open by the end of this month.

The demographics of customers drawn to our zones are very compelling. Those customers who open accounts at one of the zones, open with a higher average balance, and are more likely to increase their balances to more than twice the amount of our average customer.

In addition to our initiatives to increase volume, we continue to review, refine, and improve our brokerage pricing strategies. We implemented a differentiated pricing plan, focused on meeting the needs of our defined customer segments.

As a low-cost, value added provider, we enjoy the leverage and flexibility of pricing power. And on July 1st, we rolled out a revised power E*TRADE Platinum flat commission rate of 9.99 for qualifying active trading households.

In addition to pricing power, we enjoy other competitive advantages of product, service, and execution qualities for the active trader space.

E*TRADE Securities is the only major online brokerage to offer direct access applications, fully integrated with customer accounts, one of the things we do on the product side.

E*TRADE Securities offers concierge class, dedicated, personal service for active traders, things we're concentrating on the service side.

And E*TRADE Securities is the only online brokerage that allows clients direct orders to market makers and E C N ' s (ph) to be at the same platform. Again, our concentration on execution quality, which is what the active trader demands and wants.

Finally, as a result of those very, very focused marketing spend, almost exclusively on active traders, we acquire higher value customers, quarter over quarter.

Trading levels from these new active trader accounts increased 21 percent quarter over quarter, and the gross funded access for new active trader accounts increased 26 percent.

Now, E*TRADE Bank, we made a strategic shift away from emphasizing our high-deposit interest rates, towards cross-selling our home equity line of credit products, and building long-term relationships with more valuable customers.

This quarter, 25 percent of our mortgage products and home equity lines of credit were sold to existing customers.

To further deepen these customer relationships, to attract new customers, E*TRADE Bank introduced it's new Internet banking platform, and a three-tier checking account during the quarter.

The new platform offered increased functionality to enhance the customer experience through appealing features such as unlimited ATM refunds, and non-minimum balance checking accounts.

We also expect these improvements to help us in meeting our objectives of increasing transaction accounts.

We continue to diversify our active portfolio with the goal of widening spreads, as we've committed to, to 200 basis point run rate, by year-end, while remaining singularly vigilant about maintaining absolute credit quality.

Now having successfully integrated the auto originating platform, acquired from L e n N e t w o r k . c o m (ph) last quarter, we have begun to directly originate auto loans to our good customers.

This quarter, originated auto loans and average FICO score of 761. In June, we purchased $700 million of premium auto loans, with an average FICO score of 763. This raises the average FICO score of our auto loan portfolio to over 730.

Through E*TRADE Mortgage, we have originated over $1 billion in mortgages this quarter, and we've seen that 50 percent increase in new home equity loans and lines of credit, while maintaining high credit standards with our average mortgage customer generating a FICO score of at least 720.

Now, during the quarter, we originated almost 3,000 home equity units, and the portfolio is now well over $100 million.

On the liability side, we are placing a greater emphasis on providing our deposit customers better service and greater convenience. We experienced and expected eight percent decline in our certificate of deposit accounts, as we chose to no longer offer rates in the top one percent nationally.

By diversifying our asset portfolio, and transitioning our deposit base away from higher cost certificates of deposit, we have aligned our interest rate spread to 144 basis points in the second quarter, up from 127 basis points last quarter. And we remain firmly focused on transactional deposit growth.

Now, as we invest in and grow our business, we continue to streamline to efficiency and productivity our operating models.

Operator

We're sorry, your call did not go through. Will you please try your call again.

Len Purkis - *E*Trade Group, Inc. - Chief Financial Officer*

Operator, are we still ...

Operator

We're sorry, your call did not go through. Will you please try your call again.

Christos Cotsakos - *E*Trade Group, Inc. - Chairman Of The Board/CEO*

L e a n d r a (ph) ? L e a n d r a (ph) , are you there?

Unidentified

Do we have a backup?

Operator

I apologize, sir. You may resume.

Christos Cotsakos - *E*Trade Group, Inc. - Chairman Of The Board/CEO*

L e a n d r a (ph) , is Len Purkis still connected? L e a n d r a (ph) , is Len Purkis still connected?

Operator

He is being reconnected as we speak, sir.

Christos Cotsakos - *E*Trade Group, Inc. - Chairman Of The Board/CEO*

Thank you.

Operator

Excuse me, sir. You may resume.

Christos Cotsakos - *E*Trade Group, Inc. - Chairman Of The Board/CEO*

OK everybody. Sorry, we had a problem with the host that we use for the call connected.

I'm going to start back with our expense story on margins.

As we invest in and grow our business, we continue to streamline our operating model for increased efficiency and strength as a low-cost leader.

To this point, we continue to see the first of our efficiency initiatives, and have lowered our break-even point another six percent in our E*TRADE Securities business, as we focused on prudently our cost of services and operating expenses.

We also believe there remains room for additional improvement. Overall operating margins improved to 21 percent, and gross margin improved to 58 percent, as a result of our operational efficiencies and focused on non-transactional revenue streams.

Now, this quarter, we've completed several key efficiency initiatives to reduce ongoing operating expenses. We prudently manage marketing and advertising expenses, and reduce our spend rate by $20 million from last quarter, as promised.

We completed our migration to the open and scalable Lennox platform. This move gives us the competitive advantage of rapidly and easily deploying and integrating customers facing applications.

In addition to benefits from enhanced customer functionality and usability, this move is also expected to contribute over $12 million in annual hardware and software made in s a v i n g s (ph) .

We also implemented new networking architecture that increased incumbency and reduced network latency. This technology initiative helps enhance the customer experience, and increases system liability, now running at 99.4 percent availability.

This is also reduced annual networking costs by $5 million. And, we continue to streamline our global back office operation by effectively leveraging technology through simple and effective steps, such as increased in the electronic delivery of trading confirmations, and monthly statements by 50 percent, we've been able to generate $3 million in annual savings.

We are very pleased with the progress we have made in identifying and executing on our efficiency and productivity initiatives, but we are not done yet. We're going to continue to pursue additional opportunities to enhance the variable and flexible nature of our cost structure, and will continue to be appropriately diligent about all expenses.

Now, through our efforts to streamline operations, sustain revenue and improve earnings, we delivered, as I said before, our eighth consecutive quarter of operating profitability in line with our guidance and enhanced the many leverage points of the operating model.

Looking at all that we have accomplished, I'm very proud of the E*TRADE Financial team, who continue to execute our plan under extremely challenging and demanding market conditions.

As a shareowner, I'm very excited about the future that awaits us. And as this company's leader, the team and I are very dedicated to making E*TRADE Financial a trusted leader in this next generation of financial services.

Now, before I discuss some surveys that we've done online and our future expectations and what we are doing to prepare for the future, I'd like to turn it over to Len to review the numbers - Len.

Len Purkis - *E*Trade Group, Inc. - Chief Financial Officer*

Thanks, Christos.

First we delivered net revenues of $316 million as the market experienced some of the lowest trading volume since third quarter of 2001. This represents a $15 million decline over our first quarter in a challenging market environment, with revenue up $8 million over the same quarter last year.

On the expense side, we continue to reap the benefits of our ongoing efficiency initiatives and improve their ongoing operating margin by $15 million over last quarter.

Second, we were $15 million cash flow positive for the quarter before share repurchases of $15 million. Accordingly, our free cash position remains strong at $335 million, flat with first quarter of 2002. We expect to be cash-flow positive from operations in the second half of the year.

Thirdly, we continue to strengthen our balance sheet by retiring an additional $15 million of debt through exchange transactions in this quarter. This brings our total debt reductions to $280 million since last June.

We also demonstrated our confidence in our model by repurchasing another 2.6 million shares during the quarter at a weighted average price of $5.66 per share. This brings the total shares repurchased to 33 million shares under a multi-year, board-authorized repurchase program of 50 million shares.

So since last August, we've repurchased a total of 40 million shares, which includes seven million shares from Softbank prior to the implementation of the current program.

First to our revenues. Our net brokerage revenues totaled $215 million. That's down $9 million from last quarter, with fee-based revenues partially offsetting this decline resulting from lower transaction volumes.

Commissions of $71 million were down 14 percent over the prior quarter, and down 29 percent for the same quarter in 2001. This decline was largely due to the reduction in trading activity by massive f l u i d (ph) and Main Street consumers.

At E*TRADE Bank, gain on sale of originated loans was down slightly to 22 percent of net banking revenues from 23 percent last quarter, and down from 32 percent a year ago.

Gain on loans and securities held for sale was down to 17 percent of net banking revenues in comparison to 20 percent last quarter, but up from 11 percent same quarter last year.

Reflecting our widening interest spread, net banking interest income was up to 53 percent of net banking revenue from 50 percent last quarter, and up from 49 percent second quarter in the prior year.

As anticipated, a decline in net banking revenues by $6 million over last quarter is largely due to the reduction in mortgage-related revenue.

Although the interest rate environment remains favorable, refinancing volumes are down from the market peak in the fourth of 2001. And this has affected both our gain on sales of originated loans generated through E*TRADE Mortgage, as well as gain on loans and securities held for sale related to our correspondent flow business.

In anticipation of this decline, we successfully refocused E*TRADE Mortgage to increase home equity production. Also, given the continued strength of the general housing market, we place more emphasis on originating loans for home purchases in addition to refinancings.

As a result, we were able to largely offset the decline in refinancing volumes, and have developed a more diversified product mix to offset additional reductions in refinancing volumes if rates rise in the coming months.

We continue to progress toward a goal of widening bank spreads to 200 basis points. This quarter our interest rates spread at the bank, increased to 144 basis points from 127 last quarter, and up from 88 basis points during the same period last year.

The banks risk profile continues to be largely unaffected by our asset diversification efforts, and our portfolio enjoys an average FICA score of over 720.

Charge-offs improved for the quarter at 16 basis points on total average assets. That's down from 18 basis points last quarter, and well below the first quarter industry average of 21 basis points. We've also increased our provision for loan loss this quarter to $4.4 million.

Reserves of 20 basis points against our loan balance have been established to protect against anticipated future losses. Our loan loss reserve as a percentage of non-performing loans declined slightly to 66 percent from 71 percent in the first quarter due to our prior auto loan production having reached its peak loss period.

As our asset classes expand, we remain vigilant in adequately reserving against future losses and continuing to fund provisions for loan losses as necessary. As ever, we will not compromise on the credit quality of our portfolio.

On the expense side, our efficiency initiatives contributed to a drop in cost of services to $134 million. That's down five percent from the first quarter of 2002, and down 11 percent from the second quarter last year.

These initiatives led to an increasing gross margin to 58 percent, up from 57 percent last quarter, and up from 51 percent same quarter last year.

Total ongoing operating expenses declined by $23 million to $115 million, a decrease of 16 percent over last quarter, and a decrease of 18 percent year over year.

Selling and marketing equaled $49 million, a $20 million decrease over our first quarter, and a $6 million decrease over the same quarter last year.

As we indicated in our last call, our first quarter selling and marketing expenses, including costs associated with the promotion of our rebranding, including our Super Bowl sponsorship.

This quarter's reduction in marketing spend reflects not only the one-time nature of these first-quarter investments, but also a more deliberate and targeted marketing campaign.

General and administrative expense was $51 million. That's $3 million lower than last quarter and $11 million lower than the same period last year. We expect this to approximate our ongoing run rate for G&A expense.

Consistent with our practice of full disclosure and reporting transparency, we created a separate line item credit, which is included in operating expenses, of $23 million called "executive settlement."

This represents the value of the supplemental executive retirement plan, or SERP, and other benefits returned by Christos to the company and its shareowners, and also reflects the terms of his new, two-year employment contract effective May 15th, 2002.

This credit is considered outside of ongoing operations for our second quarter financial results, and the benefit is not included in the 11 cents earnings per share from ongoing operations.

So income from ongoing operations equaled $39 million, a $12 million improvement over last quarter and a $33 million improvement over same quarter last year. Earnings per share from ongoing operations for this quarter, 11 cents versus eight cents the prior quarter and two cents for the same period last year.

Turning to our guidance, we are comfortable with the Street consensus of 45 cents earnings per share from ongoing operations for the year 2002.

Our guidance for 2002 has been based on, among other things, transaction volumes for the year being relatively flat with 2001 volumes.

Market conditions have been worse than this, and yet we have been able to deliver results consistent with our guidance. Our focus and challenge will be to continue to improve non-transactional revenue, as well as provide offsetting operating efficiencies, to allow us to sequentially increase earnings per share from ongoing operations in the third and fourth quarters.

So in conclusion, our focus on both diversifying our revenue streams and improving operational efficiency is clear from our year-over-year results. Revenue is up $8 million from the same quarter last year, and in these results are a decline in net brokerage revenue by $40 million, or six percent, and an increase in net bank revenue by $22 million, or 28 percent.

New revenue streams include market-making, professional traders, auto loans, mortgages and home equity lines. And this represents true revenue diversification, both within the bank and the brokerage businesses, and also within the total company revenue streams.

Regarding improving operational efficiencies, cost of services declined $17 million from same quarter last year on an $8 million revenue increase. And that's driving our gross margin percent up from 51 percent last year to 58 percent this year.

Add to this the efficiencies in other ongoing operating expenses of $26 million, of which marketing is only $6 million, and we have the result of increasing pre-tax income from ongoing operations in the second quarter - seven times the same amount, or seven times the amount same quarter a year ago.

So our success in attaining and exceeding our goals despite the challenges we have faces over the past year, and particularly this last quarter, is a testament to the strength of our business model, our strategy and our execution on that strategy.

We continue to be committed to integrity and excellence to achieve our stated goals and objectives.

With that, back to you, Christos.

Christos Cotsakos - *E*Trade Group, Inc. - Chairman Of The Board/CEO*

Thanks, Len.

Now, it remains difficult to predict when there will be a recovery in the financial markets, but markets like these build tomorrow's leaders today.

Economically challenging times are really the best litmus test for emerging as well as traditional companies, because if you can deliver today, when the markets improve, so do the results as you fully realize your operational leverage.

Amidst the uncertainty of the current environment, we recently surveyed approximately 20,000 unique customers visiting our site. Active traders, high-asset investors, mutual fund investors, customers using the site for research and customers checking their portfolios shared with us their views of the current economic climate.

The following gives you a small example of selected insights from the survey.

There still clearly remains a lack of confidence in the economy. Despite this reality, consumers are staying in the markets. They are taking a more conservative and cautious approach with their finances, and instead of getting out of the markets all together.

In fact, more than half of the unique customers surveyed are opting to stay the course and hold on to their existing equity investments.

Yet the fact remains that consumers are not necessarily content to pursue this course alone. Forty percent of the customers report being concerned or anxious about the direction of their finances. We believe that customers are seeking alternative options for maximizing their financial returns, and are looking beyond traditional means currently in the marketplace to find them.

And to meet this demand, E*TRADE Financial is going to continue to develop new channels with personalized content to deliver the right information to the right customers at the right time, that is independent and unbiased.

Key to our success is our ability to effectively leverage technology to meet the financial needs of our customers, even when they are not trading. Now, the mortgage industry continues to prosper. Thirty-seven percent of customers either recently purchased or are considering purchasing a home, while many other consumers are considering refinancing their home or taking out an auto or personal loan.

Following our success in the mortgage business, we effectively cross-sold our home equity lines of credit and loan product this quarter. Going forward, we'll continue to develop and market our new auto loan platform and additional credit products for customers with the highest of FICO scores.

There will also appear to be continued opportunity to win a greater share of the banking wallet. Only four percent of customers report having consolidated their bank and brokerage accounts, yet one in five actively moved money between their bank and investing institution, and are considering consolidating their accounts.

They also told us that they prioritize low fees and convenience over high interest rates as important features in a bank account. The expanded capabilities of our new Internet banking platform will help us increase product penetration with this valuable household base.

Now, there are significant opportunities for driving brokerage revenues in this market environment. A smaller but significant segment of customers - that's one in four - is getting back into the market with the stocks right now. This movement is being led by the active traders, one of our most valuable customer segments.

We plan to build on our strong foundation established with Tradescape to continue expanding and aggressively going into the professional trading market while focusing other efforts to re-engage mainstream customers that are in the market today, early in the fall.

We have a trusted brand, an excellent financial foundation, sufficient cash reserves. We expect to generate positive cash flow from operations in the second half of the year.

We have a diversified, long-term strategy, a six-year track record in a host of market conditions, and the expertise to continue to grow our business, service our customers and deliver long-term shareowner and stakeholder value, while managing risks and our cost base.

We are not only strategically placed for the future dynamics and those changes in the financial services industry which we all know are occurring at a rapid pace, but we also are well positioned to thrive when the market, the economy and consumer confidence rebound.

With that, we'll be glad to open it up for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. The floor is now open for questions.

If you do have a question, please press the numbers one followed by four on your touch-tone phone.

If at any point your question is answered, you may remove yourself from the queue by pressing the pound key.

We do ask that while posing your question, to please pick up your handset to provide optimum sound quality.

Once again, to ask a question, please press the numbers one followed by four on your touch-tone telephone. Please hold while we poll for questions.

Our first question is coming from Adam Townsend from J.P. Morgan. Please pose your question.

Adam Townsend - *J.P. Morgan H&Q - Analyst*

Hi, good afternoon, guys.

Christos Cotsakos - *E*Trade Group, Inc. - Chairman Of The Board/CEO*

Hey, Adam. How are you doing?

Adam Townsend - *J.P. Morgan H&Q - Analyst*

Good. Just had a couple of questions. How are you reconciling the decline in reported bank customers? The number of customers and number of households appeared to have declined sequentially.

Christos Cotsakos - *E*Trade Group, Inc. - Chairman Of The Board/CEO*

Arlen, why don't you take that, and then Mitch and I will follow up.

Arlen Gelbard - *E*TRADE Bank - CBO & President*

OK. You know, looking at the big picture, we've been concentrating on optimizing our balance sheet, not only by diversifying our assets, but also focusing on the pricing of our liabilities, as well as cross-selling to E*TRADE Financial customers, both on the credit and deposit products.

And this quarter we were actually very encouraged by the results. Because what we've done is, we've revised, as Christos spoke about, the bank's value proposition as we move away from one focus solely, or primarily, on high rates, to one more on value in the form - for the customer - in the form of high y e a r (ph) rates, coupled with superior customer service and superior convenience and access.

We're also focusing on changing the mix of our accounts, which emphasize transactional accounts.

What we saw in this quarter was that virtually all outflows, both in deposits and in accounts, came from those customers who would come to us for higher rate CDs, as well as certain expected attrition in our money market accounts.

So what we're pleased about, however, is that the attrition was actually lower than that, which we modeled, which to us is an indication that our customers are more sticky and less price sensitive.

And we'll continue to develop and refine our products to offer greater value and deepen the relationship with our customers, because our goal is to offer the right product to our customers to meet their demands at all times.

Christos Cotsakos - *E*Trade Group, Inc. - Chairman Of The Board/CEO*

And, Adam, what you're seeing is, with n S i g h t (ph) our relational data warehouse, we're able now to look at some of the changing migration patterns of our banking customers as well as our brokerage customers and some of our institutional customers, and look at either putting our marketing power behind where we think the trends are moving, or how we can best optimize profitability in any particular customer segment.

So we're more concerned with the profitability and revenue going forward, and optimizing the account penetration for households than we are just grabbing accounts for accounts sake, which become very expensive for you in the long term if they're hollow.

Mitch, you want to add anything?

Mitchell Caplan - *E*TRADE Group, Inc. - President & COO*

Yeah. And the other thing I would add, Adam, is that, you know, Arlen has been singly focused on the banks. Jarrett's been singly focused on the brokerage.

You also have to look at it in the aggregate. So we may have an E*TRADE Financial customer who has either a CD or a money market, has at some point last quarter re-engaged or decided to potentially re-engage in the investing and brokerage business and move money over to a money market account on brokerage in preparation.

So that would potentially show a decline in an account on the banking side, but yet there would be a pickup or a net flow of money over to brokerage.

Adam Townsend - *J.P. Morgan H&Q - Analyst*

OK. Good explanations. Thank you for that.

One other question I had. I was a little perplexed by the weakness of the mortgage lines.

I was just reading recently that a couple other banks, Greenpoint and Wells Fargo, had really nice sequential upticks in the mortgage and the Mortgage Banker Association data suggested that through the latter part of the second quarter, you know, even Refi - the Refi index was actually rising, near all-time highs.

Can you talk a little bit about, you know, where you're getting new people coming in there, if there's - if w e ' v e (ph) exhausted the cross sell opportunity, maybe touch on that for me?

Unidentified

Sure. It's exactly what A r l i n (ph) and his team have been working on. So, A r l i n (ph) .

Unidentified

Sure. In this quarter, we're also pleased with the results for the mortgage business. You know, as we said when we acquired the company, we acquired it really for two reasons. One is to generate assets for the bank's portfolio, as well as to generate revenue for origination and sale of loans.

You know, what we saw is that there was a decline slightly in the refinance volume.

But this was, in part, a concerted effort on our part to ramp up the production of home equity loans, which are the types of loans that we like to keep and place into the bank's portfolio, as well as additional focus on trying to develop our purchase money business, which again is more likely to result in loans that we place into the bank's portfolio.

You know, if you look at the first - the first mortgage volume, it's only down slightly quarter over quarter.

But what's very encouraging for us is that the mix, if you look at between the volume for refinances versus the volume of purchases, you know, in Q1, we had a refi volume of about 85 percent and a purchase volume of 15 percent. But in Q2, our refi volume went down to 65 percent as our purchase volume went up to 35 percent.

And this growth in the mix between first and refi is about double the industry average for Q2. And also, as you saw from the numbers, our origination of e l o x (ph) was up, you know, just in terms of a dollar basis, up 51 percent for the quarter.

So we're real pleased with that, as well as the fact that our pipeline is strong coming out of Q2.

Unidentified

Yeah. And, A d a m (ph) , again, what you're seeing is much like what J a r e d ' s (ph) doing with the E*TRADE securities in our brokerage division is we're redirecting, based on consumer changing behavioral patterns in i n s i g h t (ph) .

And rather than spending a lot of money on the mainstreaming investments this quarter, where we saw transactions drop and we believed it was going to drop even more significantly in the summer, we refocused that spend onto the active trader segment so we can ensure that we boosted that segment, which we knew from the research was going to be much more prolific than the mainstream customer was, realized that they would probably come back slowly and choppy - right - but in the fall.

so you're going to see that continually with us each quarter as we look at what that relational data warehouse is telling us on consumer behavior trend and allocating our resources, our marketing spend and where we're looking for efficiencies from one product or one service to another, based on what division or diversification that we've got throughout the entire company, which really does become a great strength of ours in this current environment that we're in.

Operator

Thank you. Your next question is coming from Glen S h o r e (ph) from Deutsche Bank. Please pose your question.

Glen Shore - *Deutsche Bank*

Hi, guys.

Unidentified

Hi, G l e n (ph) . How you doing?

Glen Shore - *Deutsche Bank*

great. The first thing, maybe from A r l i n (ph) . Oil loans now 14.4 percent of the bank portfolio. What is the upper end of your comfort range there?

Unidentified

At this point, we're working with our - with our product mix. You know, we're ultimately limited, as an institution by our QTL, our qualified thrift lender test. But we haven't set an upper limit.

In large part, you know, we look at the percentage that we want to have in mortgages and mortgage-backed securities and the rest in other, meaning.

Glen Shore - *Deutsche Bank*

That's the - that's the 75/25?

gary? Sixty-five/35.

Glen Shore - *Deutsche Bank*

Sixty-five/35.

gary? But otherwise, you know, what we will end up with ultimately as a mix really depends on the market, what the market has to offer us.

Unidentified

G a r y (ph) , again, it's the same - the same comment - right - with regards to 65/35. We're going to - we're going to put those resources where we think we get the biggest bang for our buck, both short and long term.

gary? Right. And the - and the...

Unidentified

We're paying strict attention to all the customer segments, all the products and services almost on a weekly basis.

Glen Shore - *Deutsche Bank*

On the portfolio that you just picked up during this quarter, you've commented on the high F I C A (ph) scores. Can you give us a sense for what the yield pickup is and if it's leased or new loans and where you're sourcing them from? Is it all from Chase?

Unidentified

It's not from Chase. But I can't really discuss where it's coming from. It's coming from - it's direct origination. They're newly originated loans.

It's a reasonable mix, slightly skewed in the favor of used orders as opposed to new orders. But they are - you know, they have customers who have, as we said, the very high F I C A (ph) loan - F I C A (ph) scores. And that's really about it.

Glen Shore - *Deutsche Bank*

No comment on the yield pickup? Is it similar in that 40, 50 basis-point range over your mortgage portfolio?

Unidentified

No comment on that.

Glen Shore - *Deutsche Bank*

OK. A couple housekeeping...

Unidentified

G l e n (ph) , he's not going to let you back into the number for the model.

Glen Shore - *Deutsche Bank*

I'll still try. How about the reserve quarter to quarter? It doesn't look like much change. M P A s (ph) are pretty flat. And the provision went up a little bit. Is the reserve basically unchanged quarter to quarter?

Unidentified

I assume you want me to take that, M i t c h (ph) ?

Unidentified

... is it a unchanged.

Unidentified

Yeah. Basically, they are unchanged.

Unidentified

That's it, basically unchanged.

Glen Shore - *Deutsche Bank*

OK. Maybe just one more clarity point on guidance. So the top line, obviously, is weak. The outlook is not great. Trading stinks. Mortgages are coming off of their peak. And you made a comment that the GNA, we're, kind of, near their run rate. So I understand margin expansion. A

nd the cost saves that you outlined on the technology side, is that enough to get us to that 45 cents that you reiterated is there more across the board on each of the expense lines that we're expecting?

Unidentified

I think where we're going to - if you look at where we are on six months, we've obviously done 19 cents...

Glen Shore - *Deutsche Bank*

Right.

Unidentified

... in a real tough environment. But if you look at our gross margins, we're still looking at those being in the high 50s to maybe 60 percent in this environment. And the GNA and take t h a t (ph) , the marketing being in the same sort of percentage through revenue as they are for the first six months.

But what you're really looking for to get you to that 45 EPS, 45-cent EPS is you're going to see two key drivers. One is going to be the bank achieving its interest rate spread expansion. And the other is just going to be ongoing efficiencies with the programs we've got in place. So there's a very clear program as how we get from the six-month arena to the 45 cents.

Unidentified

And remember, G l e n (ph) , we're not - you know, we're not looking at the 45 cents singularity. We're looking at the dollar EPS, which is what we're driving for in the near term and to show that we can leverage this model in most environments.

And when it does flip around, we can take a larger percentage of the transaction revenue that we get and drop a large margin of that to the bottom line.

So, you know, there's an exogenous e v e n t (ph) out there that makes things very difficult. Certainly everybody is under pressure.

But given where it currently is today and given how we performed in this quarter, we're still not being able to meet the transaction volume that we had last year because remember, previous guidance we said that the transaction volume would have to be flat to slightly lower plus to meet our guidance number, again, it was significant lower and we still met it.

And that gives us a lot of confidence on how we're executing on really three areas - one, how we manage risk, two, how we manage our cost; and three, a lot of the innovations that we're doing in our technology group to leverage that in our operating model. And that currently gives us some good confidence.

And, M i t c h (ph) , you want to add anything?

Unidentified

Yeah. And, G l e n (ph) , last point is two things. One is clearly, we've guided conservatively with respect to both cost of services and operating expenses. I think you know C h r i s t o s (ph) drives me pretty hard to focus on that. And so, I think you'd expect for us to continue to be vigilant about that.

As well, when you look at the top line growth, you can figure out as well as anybody what happens is we continue to widen bank spreads and how much that helps in terms of pickup.

Also, what we are seeing and I want to give, sort of, cautious but general guidance around the mortgage business. One of A d a m ' s (ph) earlier questions was about, you know, how do you look at, you know, the flow of revenue and income from your mortgage business.

For the first time, we are different than G r e e n p o i n t (ph) and others. We're balancing what we put on balance sheets and widened spreads against what we choose not to put on balance sheet and sell into the secondary market i n (ph) a gain.

So one thing that is comforting is you will see us right now exiting - and we haven't seen these sorts of numbers for a while - exiting Q2 with over $500 million in the pipeline around the mortgage business in loans.

So based on the refinance index that everybody's seeing in the marketplace, we are no difference than what's happening everywhere else. We see that as a huge opportunity. And it will either show up top line revenue growth in the gain on sale or in the widened spread or more accurately, in some combination of those two.

Unidentified

I think lastly is you could have a somewhat stronger July and maybe a weaker August and maybe come out again a little stronger in September, which could balance things out across the board. So we're watching that carefully. But the first couple of weeks of July are very encouraging. And they certainly are much stronger than they were the last quarter.

We do think that will slowdown in August but maybe with a pickup in September. So that gives us also some confidence, again, barring anything exogenous our control.

Operator

Thank you. Your next question is coming from Richard G r i k e t o (ph) , from Putnam L e v e l (ph) Securities. Please pose your question.

Richard Griketo - *Putnam Level Securities*

Yeah. Hi, guys.

Unidentified

Hey, R i c h (ph) .

Richard Griketo - *Putnam Level Securities*

Hi. First question is on the other brokerage revenue, we've seen a nice up tick this quarter, actually in last quarter, as well. And I think you alluded to a little bit on the fee-based - when you made a comment on fee-based revenue. Can you just give us a little bit color of, you know, what's causing the up tick, G l e n (ph) ?

Unidentified

Yeah. Well, G l e n (ph) . Then we can have J a r e d (ph) follow it up since he runs that division.

Unidentified

Yeah. On the brokerage revenue, remember, we've got mutual fund fees in there. We've got B S G s (ph) , predominantly fee-related income. And we introduced the handling fees this quarter and other fee-based revenue. There's also a maintenance fees in there.

But it's really coming from the increased fee revenue that's really been introduced this quarter.

Unidentified

J a r e d (ph) , you want to add anything?

Unidentified

I guess the only thing I'd add to that is, you know, this is - this is a good base to work from. That increase is recurrent.

Unidentified

You know, R i c h (ph) , I would tell you, the other thing that we're working on now that we have the three strong divisions with J a r e d (ph) , A r l i n (ph) , with banking and brokerage and J o s h (ph) in technology, we're looking at what we can do with software licensing and revenues, et cetera, to build up the technology revenue stream that we can have in the company.

And you'll have three strong diversified streams, all helping to mitigate different changes in consumer behavior or in the marketplace, depending on what aspects of the business you're in.

So it may not be next quarter but the quarter after, you'll start seeing J o s h (ph) report now from his division as we realign some things, the revenue and responsibility he's got. And the numbers will be coming out of there.

Richard Griketo - *Putnam Level Securities*

OK. And my last question, you know, I got to ask this question. You know, is there anything - or what is your feeling, C h r i s t o s (ph) now, you know, with investors since the comp issue? You know, is there anything we can do? The stock's been off significantly since the end of April.

We know the steps you've taken. What's your feeling towards, you know, the reaction to the stock and invested behavior here. And we know it's been tough market conditions too?

Unidentified

Well, I think we've been - you know, we - you know, it was a contentious environment between, you know, the shareholders, the board and us. Let me tell you three or four things that we've done.

First is we've really over delivered on one, not only what I stated I was going to give back, but even gave back much more than that, especially to our associates, as well as more to our shareholders to show that I am certainly in line with regard and have always been with our shareholders.

Secondarily is, with a really shortened contract, which is very simple, easy to read, no nonsense, to show the tough economic and challenging times that we're all in. That's, kind of, number one.

Number two is, on the corporate governance side, we meet almost all the N Y S C (ph) list of requirements now for governance. We are adding an outside independent director that we hope to have on board before the end of the year. We also have our corporate governance committee.

And we do have a lead director, by the way, and a fully independent governance c o m m i t t e e / a u d i t (ph) committee. And we're evaluating all the charters of outside counsel to make sure that we use the guidelines with C a l p e r s (ph) to make sure that we are in compliance with absolutely unequivocal great corporate governance across the board.

And then, thirdly is once the summer's over, I'm going to go back around to all the large investors and institutions and talk to them, with M i t c h (ph) and with G l e n (ph) about where we are with the dollar, where we are with regard to company, its execution of its plan and where we are with where we think we are with this great model and leverage.

So we believe that a good portion of that is behind us. As you know, we still have the soft bank overhang, which is a part of the issue. There are $15 million - there are 15 million shares. We still have people worried about light transaction volume in the summertime. And the whole sector is just out of favor.

But we believe, if you look at where we are from a valuation standpoint now and where we're trading as far as the multiple goes, it's very attractive, going forward, good value, good technology, good business model. And when the market does come back, we're going to be well positioned.

So we think a lot of that stuff, R i c h (ph) , is behind us. And we thank you for asking that question.

Richard Griketo - *Putnam Level Securities*

Thanks, C h r i s t o s (ph) .

Operator

Thank you. That will conclude our question-and-answer session. I would like to turn the call back over for f u r t h e r (ph) comments.

Unidentified

Yeah. I just want to thank everybody. Have an enjoyable summer. And let's look forward to the market coming back in the fall. Thank you. Have a great day.

Operator

Thank you. Thank you all for your participation. You may disconnect your lines at this time and have a great day. Thank you.