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EDITED TRANSCRIPT

ETFC.OQ^J20 - Q4 2006 E*TRADE Financial Corp. Earnings Conference Call

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OVERVIEW:

ETFC reported for 4Q06 consolidated net revenue of $630m, record net income of $177m, and EPS of $0.40 per share. For 2006, Co. reported record net revenues of $2.4b, record net income of $629m, and record EPS of $1.44. During 4Q06, Co. purchased approx. $40m of stock or roughly 1.7m shares, at an avg. price of just over $23 per share.

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PRESENTATION

Operator

Welcome to E*TRADE Financial Corporation's fourth-quarter 2006 earnings conference call. At this time, all participants have been placed on a listen-only mode. Following the presentation, the floor will be opened for questions.

I've been asked to begin this call with the following Safe Harbor statement. During this conference call, E*TRADE Financial Corporation will be sharing with you certain projections or other forward-looking statements regarding future events or its future performance. The Company cautions you that certain factors, including risks and uncertainties, referred to in the 10-Ks, 10-Qs and other reports periodically filed with the Securities and Exchange Commission could cause the Company's actual results to differ materially from those indicated by its projections or forward-looking statements. This call will present information as of January 18, 2007. Please note that E*TRADE Financial disclaims any duty to update any forward-looking statements made in the presentation.

In this call, E*TRADE Financial may also discuss some non-GAAP financial measures in talking about its performance. These measures will be reconciled to GAAP either in the course of this call, or in the Company's press release, which can be found on its Web site at www.E*TRADE.com.

This call is being recorded. Replays of this call will be available via phone, webcast, and by podcast beginning at approximately 6:30 PM Eastern time today through 11 PM Eastern time on Thursday, February 1. The call is being webcast live at www.E*TRADE.com. No other recordings or copies of this call are authorized or may be relied upon.

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

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Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Thank you everyone for joining us today.

Last month on our guidance call, we stated that the Company has reached an inflection point and is poised to generate strong organic growth in 2007 and beyond. We outlined how we are positioned to drive this growth as we attract, retain and migrate customers into our target segments that generate the greatest overall return. We talked about our ability to monetize engagement with these customers across our integrated suite of cash, asset, credit and transactional products.

In addition, we provided more detail on two unique growth opportunities within our model, corporate services and international. Through the investments in service and marketing we made in 2006 and the additional investments we will make in 2007, the business is generating solid results today and is positioned for strong results in the years ahead.

As evidence of our success, I am pleased to announce that we delivered record results for the fourth quarter and that 2006 was a fourth consecutive record year for the Company. These results are the product of four years of teamwork and great execution. Through focus and discipline, we're building a franchise that can continue to deliver significant organic growth year after year, growth that meets or exceeds our goals of 10 to 15% topline and 15 to 20% bottom line. In 2006, our organic growth exceeded these benchmarks, and we supercharged the Company's total rate of growth through the successful integrations of Harris and Brown.

More importantly, as a diversified financial-services franchise, the true success of 2006 culminated in Q4 with record levels of client engagement propelled by the growth in our target segments. It is this larger, growing base of target segment customers and their heightened levels of overall engagement that position us for accelerated growth as we move into 2007.

While our reported annual net account growth in 2006 was modest, we achieved 31% account growth in our core target segments. Year-over-year, DART activity grew 21%; end-of-period margin balances grew 7%; asset balances increased 10%; and total customer cash and deposits grew 19%, exiting the year at a 25% annualized growth rate.

Specifically, in the fourth quarter, we grew total customer cash and deposits by a record $2 billion, ending the year with over $5.4 billion of organic cash growth. This growth drove deposits as a percentage of interest-bearing liabilities to 62%, up from 54% in Q4 of '05, and established great momentum toward our 2007 targets. Through this product engagement, net revenue per customer and segment income per customer grew 27 and 30% respectively in Q4, versus the year-ago period, consistent with our 31% target segment growth.

Having developed a differentiated value proposition for the investing customer around price, innovative functionality and superior service, we have built a franchise uniquely capable of capitalizing on secular growth trends within the financial-services industry. In 2006, we positioned the business to deliver long-term growth through multiple channels and to do so profitably through increased scale. In 2007, we will build on our 2006 success to drive organic growth through greater account acquisition, customer retention, and upward migration.

Just as we have benefited from the success of the Harris and Brown deals in 2006, we will continue to look for consolidation opportunities in 2007 that will deliver growth, scale and efficiencies in any of the core areas of our business, transactions, asset and cash aggregation, or credit origination. We will look for such accretive combinations, both domestically and internationally.

Now, for more details on the success of the fourth quarter and 2006, I will turn the call over to Jarrett.

Jarrett Lilien - *E*TRADE FINANCIAL Corp. - EVP, CFO*

All right, thanks, Mitch.

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In 2006, we proved our ability to understand and segment our customer base and to deliver the product, pricing and service that they want. This understanding and our ability to execute on it drove significant multi-product engagement within our targeted segments. Combined with the broader use of relationship managers, we have been able to accelerate target account acquisition, reduce target account attrition, and increase migration of Main Street customers into higher-value segments. Behind this success has been our continued ability to leverage our technology to improve each core component of our value proposition, price, functionality and service.

In the fourth quarter, we built upon the success of E*TRADE Complete and continued to redefine the way investing customers viewed their cash assets. In November, we launched the "Complete Savings Account", a new product offering our customers an attractive opportunity for their cash. In a similar way, through E*TRADE Canada, we launched the Cash Optimizer Investment Account, our first integrated cash solution for international customers. Products such as these offers our customers competitive rates while delivering low-cost funding for the Company's balance sheet and help to drive the $5.4 billion of total customer cash and deposit growth that Mitch touched upon earlier.

Within the growth in customer cash, 85% of the Q4 deposits came from existing or new investing customers who are broadening their engagement and deepening their overall relationship with the Company. As evidence of this deepening engagement, 83% of these customers grew their total assets versus the prior quarter and half grew their total assets by 20% or more. Further, these customers also grew their total trades by 34% and option trades by 28% sequentially, well ahead of the rate of our average customers. With our cash and deposits per customer up by over 18% versus the fourth quarter of last year and the increases in other product utilization, it is clear that our suite of financial solutions is resonating with our customers.

Looking to functionality, in 2006, we launched our new prospect Web site to improve access to information for our prospective customers and to help increase the efficiency of our marketing dollars. We also made a series of enhancements to our global trading platform, including conditional orders for both equities and options. Continuing our mission of innovation, we introduced a first of its kind retail futures trading platform, including professional-quality functionality and access to a dedicated derivative service team.

Investments in our trading platform continue to pay off as we saw yet another year of strong results. Overall, fourth-quarter DARTs increased 15% versus the third quarter and were up 21% versus the fourth quarter of 2005. Embedded within the DART results were option volumes that represented almost 14% of quarterly U.S. trading activity.

As we see growth in our target segments, segments that tend to include more savvy investors who employed hedging strategies, options continue to be a growing and integral part of our transaction activity. We are also optimistic that our new futures offering promises to make the broader derivatives products increasing contributors to our overall transaction business.

On the international trading front, our best-in-class functionality and content delivery helped generate a 23% organic increase in quarterly sequential trading activity and an almost 50% increase year-over-year. With this increase in trading activity, we have also seen a sizable increase in international assets, another positive leading indicator as we extend our operations globally. As we continue to refine our overall value proposition within our international markets and roll it out more broadly, we expect our trading solutions to spark multiproduct engagement within our target segments.

With respect to lending, this year, we launched the Intelligent Lending Optimizer, an online tool that allows customers to evaluate their credit alternatives, including margin and mortgage products. We continued to make substantial strides as we reengineer our lending origination platform. Realignment of this business will further our ability to originate more first-lien mortgage loans to put in our balance sheet.

During the quarter, we continued to add high-quality margin and mortgage assets to the portfolio. With growth of over $3 billion in the fourth quarter, our loans as a percentage of interest-earning assets now stand at 65%, up from 62% at end of Q4, 2005.

As a measure of continued engagement in the aggregate, total retail client assets have reached record levels. During Q4, we saw net new retail asset inflows from current and new customers of $1.3 billion, while total assets increased by $10 billion to a record $195 billion, along with strong market trends.

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Across the business, our 2006 investments in marketing and service have generated solid returns. Deploying relationship managers based upon a targeted segmentation strategy is spurring organic growth and driving greater customer engagement, as evidenced by our growth in revenue per customer, profit per customer, cash and deposits per customer, and assets per customer.

As noted in our guidance call, target segment accounts are extremely valuable to our model, since these customers typically engage at three times the levels of our average customer across assets, trading, margin and cash. Following from this and as one would suspect, our average target customer now generates annual consolidated net revenue three times that of an average customer. Given the value of these customers, we will invest in expanding our service relationships across this segment, as well as in marketing, to further connect with these targeted customers segments. These incremental investments will be front-loaded during the year so that we can maximize the benefits we will derive in 2007 from the resulting increased engagement. Accordingly, we expect our marketing spend to increase in the first quarter by approximately $20 million over the fourth-quarter level. The strength of our fourth-quarter metrics and our record 2006 results validate our decision to make these investments.

In 2007 and beyond, we will take what we have learned about our target customers and scale the results of those lessons to drive targeted account acquisition, reduce account attrition, and increase upward account migration. This scaled execution will establish exciting opportunities for the long-term future of the franchise.

With that, I will turn the call over to Rob for the financial details.

Robert Simmons - *E*TRADE FINANCIAL Corp. - President, COO*

Okay, thanks, Jarrett.

2006 represented another banner year in terms of the Company's financial performance. For the full year, we delivered record net revenues of $2.4 billion, record net income of $629 million, and record earnings per share of $1.44. Excluding a previously reported $0.05 of acquisition-related integration expenses, we generated $1.49 per share. Embedded within our topline growth was a further improvement in the quality of revenue. Net interest income, commissions and fees grew, while gain on sale loans and securities decreased. We continued to hold more of our loan originations on balance sheet, monetizing their value as recurring spread income. Through a combination of financial discipline and greater scale as we fully integrated our most recent acquisitions, we delivered over 300 basis points of improvement in operating margin versus the prior year. For the full year 2006, our consolidated operating margin was 41%, up from 38% a year ago.

Over the past year, we distinguished ourselves from traditional players by leveraging our unique integrated balance sheet and our strong growth in cash and deposits to manage our cost of liabilities. This led to a 28 basis point increase in net interest spread year-over-year despite the headwind of an inverted yield curve. By managing a low-cost operating infrastructure, we have a distinct competitive advantage that allows us to offer our investing customers competitive rates on their invested and uninvested cash balances while still generating a strong return on assets. Unlike traditional brokerage firms, our model has the flexibility to generate growth in net interest income in a rising and falling rate environment, given our mix of asset products and the repricing dynamics between our assets and liabilities.

Should the Fed begin to cut rates later this year and/or the yield curve begin to steepen, we would expect to see improving economics and further balance sheet growth. Increases in mortgage origination should more than offset any potential spread compression on margin loans, which represent just 13% of our average enterprise interest-earning assets.

Looking at the quarter, consolidated net revenue totaled $630 million, up 8% sequentially and 31% year-over-year. Net operating interest income after provision increased $21 million versus the prior period to a record $364 million, growing 50% year-over-year. While maintaining a relatively flat net interest spread quarter-over-quarter, the increase in net interest income was generated through continued growth in the balance sheet with average interest-earning assets up 7%. We grew the balance sheet while adhering to our strict discipline with respect to credit quality. This discipline has led us to reduce our exposure to unsecured consumer lending products, particularly as we build out and expand our mortgage origination platform, which will focus on high-quality first-lien products to hold on-balance sheet.

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We made the determination to sell roughly $63 million of balances from our credit card portfolio, for the underlying customers had no other relationships with the Company and the risk-adjusted return on these assets was not attractive, given the focus of our model. As a result of selling these balances, our provision was effectively lowered by $4 million, but we realized a $4 million net loss on the sale, making the transaction net neutral to reported revenues.

Examining the growth in our mortgage-related assets, for both the quarter-over-quarter and year-over-year periods, the average FICO scores loan-to-value ratios and debt-to-income ratios either remained constant or improved. As of December 31, our average FICO score across the portfolio is 737. Average loan to values on mortgages are 73%, and debt to income averages 30%.

Commission revenue increased $15 million sequentially and $13 million year-over-year. Within this number, retail commissions represented a little over 18% of total net revenue, up on seasonal strength from 17% in the third quarter. For the quarter, retail average commission per trade decreased from 11.95 in the third quarter to 11.88. This decrease reflects a combination of changes in volume mix within segments.

On the expense side most notably, other expense decreased significantly as we saw fraud and bad debt-related expenses drop by over $15 million sequentially. As you recall, last quarter, we discussed an increase in fraud-related expenses. These have returned to a more normalized level as we implemented system and process measures to detect and minimize fraudulent activity.

Under Other Income, as we've previously guided, we took the final $12 million in gains from our ISE holdings.

At the bottom line, we delivered record net income of $177 million for the quarter, up $23 million sequentially and $47 million year-over-year. This translated into earnings per share of $0.40 per share. Included in our reported earnings were two items of note. First, we recorded $9 million or about $0.015 per share in restructuring charges. Second, we recorded tax benefits of approximately $0.03 per share related to state tax claims disclosed last quarter and the reversal of a valuation allowance based on an international operation achieving sustained profitability. Adjusting for the restructuring charge and applying a more normalized tax rate of about 35%, pro forma earnings for the quarter were $0.39 per share.

Operating margins also continued to improve in the quarter with the realization of further operational efficiencies throughout the business, leading to reduced total expenses even as revenue increased. Operating margin was a solid 43% and a record 45%, excluding the restructuring charge, putting us well on track to achieve our 47% targeted operating margin for 2007.

Account and customer growth in our retail franchise was strong, given that the true growth was masked by two unique set of events. First, two of our corporate services clients underwent mergers and a third went private in the quarter, eliminating approximately 29,000 customers and accounts from our reported base. Second, as I noted earlier, during the quarter, we sold a portion of our credit card portfolio, eliminating another 27,000 customers and accounts. Adjusting for the effect of these transactions, we would have added 51,000 net new customers and 57,000 net new accounts during the quarter. As a result, this was our strongest quarter for retail account and customer growth in nearly three years, evidence of the success of our investments in product, service and marketing.

We also continued to create value under our share repurchase program by opportunistically buying shares in the open market. During the quarter, we purchased approximately $40 million of stock, or roughly 1.7 million shares, at an average price of just over $23 per share. After this purchase, we have $57 million still available under our Board-approved share repurchase program. Including the effect of our share repurchases this quarter, our overall debt-to-equity declined to 30% from 41% a year ago. Given our strong cash flow generation, our interest coverage ratio is over eight times.

In conclusion, the Company's 2006 financial results highlight the successful evolution of our model. Having made strategic investments in each of the core components of our value proposition and having further refined that value to our target customer through segmentation, the Company is in a unique position to generate accelerated organic growth in 2007.

With that, we will now open up the call to answer your questions.

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QUESTIONS AND ANSWERS

Operator

Thank you. The floor is now open to questions. (OPERATOR INSTRUCTIONS) Rich Repetto, Sandler O'Neill.

Rich Repetto - *Sandler O'Neill - Analyst*

The first question is, you know, the growth of cash and deposits, you know, you hit the 2 billion figure that--at least there were some doubts on the guidance that, from the earlier run rate of the year, that now you're much closer to it, as well as you are farther along on the starting point. So actually my question is, if the spread only contracted by one BIP, if your goal still to bring on 8 to 12 billion in net new assets given the old guidance, and the balance sheet to grow say about the same, if we are replacing--if we're bringing in funds at that low rate, why would the spread contract into your range of 2.65 to 2.75?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Thanks, Rich. So first of all, obviously, when we gave guidance at the end of December, we had the benefit of seeing what the trends looked like with cash for Q4. So, we had an experience where we had seen, as you remember in 2006, I think we brought in something like about 1.6 billion in the first quarter; then it dropped off to about 300 million in the second quarter because of some outflows related to taxes and otherwise. But it popped back up to about 1.5 billion and then finally we were on track to hit this $2 billion mark.

So to your point, as we were giving guidance, we felt reasonably comfortable giving the range that we did to bring in cash and credit deposit. A big part of that, obviously, was the introduction of a couple new products in Q4, one of them which Jarrett talked about I think in his remarks, the complete savings account.

You are right. I mean, what we saw in Q4 was the growth of $2 billion of cash, and we were very pleased with the kind of cash that we were growing. So if you look at the numbers, what you'll see is the CDs were relatively flat, so there wasn't really growth, and rather it can almost entirely in the form of transactional accounts, which is what we're trying to achieve. We're trying to get accounts. As Jarrett pointed out, we want 80, 90% of them, as we are seeing, coming from our existing investing customers, deepening their relationship with us, behaving in ways in which they also continue to trade more and do other things, but we would like to see them really engage around these transactional products. As they choose things like complete savings, free credit sweep, checking, we are in a place where, in this particular quarter in Q4, you saw the asset reprice up about 8 basis points, and you saw liabilities reprice up about 9 for that 1 basis point of spread compression from 286 to 285.

Should we be as fortunate, going forward, in this year, in bringing in the kinds of sticky deposits around transactional accounts, it's possible that we would have less spread compression than we modeled, but I think right now, given the marketplace, given our ability to try to let the customer choose and let them pick the product that fits the best for them around the whole host of what we are offering in cash, we think it's most prudent to make continued assumptions around a repricing up of the liabilities in excess of what you may have seen in Q4, and would therefore put us into the range that we gave you that we guided around spread.

As we go through the year, if we see that things are different, we will certainly come back and revisit. I think we've done that in many times in the past years. Again, we will keep you updated on where we are. But the most important thing for us is to see the trendline moving to the 2 billion. Clearly, I think you are seeing real focus and interest in cash as a product and an offering for us around these customers in our target segments. They are doing it in the right kind of transactional accounts.

Jarrett Lilien - *E*TRADE FINANCIAL Corp. - EVP, CFO*

The other thing I would add that we talked about on the guidance call is that, you know, we put a lot of emphasis on spread in the last few years. Really, the emphasis should be on net interest income. What we are aiming to do is to have the right balance of price and product and functionality, which in some cases around the cash product means offering higher rates, which would mean a lower spread, bring in greater balances which

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generally--you know, if the combination, the rate volume is working together as it should will mean--could mean lower spread but higher net interest income. That's what we saw in the third quarter and that's really what we're seeing in the fourth quarter, too. As customers come in for some of our higher-rate products, they continue to grow their overall relationship with us. That's the real focus and goal for '07.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes. I think you'll hear more and more, particularly as we go into analyst day and beyond, around this concept of customer segmentation, the kind of target customer we're going after, what their behavior is, and recognizing that when you get a more engaged customer, you see it come through in the form of fees around assets; you see revenue come through in the form of commissions; you see it come through in the form of spread. Ultimately, it generates a higher return on invested capital for us as a franchise.

Rich Repetto - *Sandler O'Neill - Analyst*

Understood, okay. That answers that. I guess the other question, well, is more on something longer-term, on consolidation. And you know, the focus on cash and deposit accumulation, it seems all the former transaction models now are moving much more in that direction. I'm just trying to see. Do you think that consolidation, maybe not now but over the next 18 months, because the models are now appear more complementary and compatible, say, some of your closer online peers that move in that same direction with branches and IRAs, does that make it more likely that you would see consolidation in this space?

Jarrett Lilien - *E*TRADE FINANCIAL Corp. - EVP, CFO*

Yes. I mean, as a practical matter, you know, when you look at the benefits of--you start out, I mean step, back and look at Harris and Brown. What was so incredibly compelling is that in fact we acquired a base of customers who fit ideally into our target segment. Those customers, we were able to put them onto our platform, eliminate a significant amount of cost, and be able to move the volume through around not only trading but more importantly around assets, around cash and around credit, and putting it on balance sheet. So to the extent that many of us are moving directionally in the same place as we think about this kind of target customer and how we want to offer them a host of products, you would have continued benefits associated with consolidation on both the revenue side and frankly on the expense side, because again, if you're building out platforms to figure out the right way to deal with that customer from a service and distribution, and you each have expenses associated with it, someone's expenses are going to get eliminated. I mean, there is value creation there.

Ultimately, I think I said it in my prepared marks, you know, we continue to think that there's opportunity for consolidation domestically, internationally. What's interesting I guess for us in our model is that we're going to be disciplined about making damn sure that if we do a deal, it's accretive, and it's meaningfully accreted in generating value to shareholders, but we believe that accretion can occur as we look at any of those points of engagement with a customer from a retail perspective, so whether it's asset aggregation or trading or cash or whatever it may be.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay, I guess my point is you are right. It used to be about account growth and just technology savings. Now it appears there's still savings and well, there's only a couple of places for big accounts to go, but the strategies are you get a whole new synergy there.

Jarrett Lilien - *E*TRADE FINANCIAL Corp. - EVP, CFO*

Yes, I think that's right. I think people are becoming more aligned in the way they think about their business. Again, for us, you know, you've got these clear revenue synergies by piecing them together as well as the expense synergies because we happen to have a unique platform which I believe optimizes it. So right now, when I look at many of our competitors, domestically and certainly internationally, you really don't see anybody who has the ability to really optimize every point of contact with a retail customer.

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So I think you put it in our model and we've got great revenue synergies along with all the expense synergies you're talking about. So the value creation does not go unnoticed on us as a company (technical difficulty).

Rich Repetto - *Sandler O'Neill - Analyst*

Okay, thanks, guys. Solid quarter.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Absolutely!

Operator

Matt Snowling, Friedman Billings.

Matt Snowling - *Friedman Billings - Analyst*

I guess two quick questions. You know, for the charge-off, it seems you have a little bit of a spike in charge-offs in the mortgage and consumer portfolios, and yet you let the provision kind of run down a little bit. I'm just wondering. Given the balance sheet growth and the seasoning of those assets over time, should we expect more of a provisioning or a reserve building?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Well, let me just address it. So, in other words, if you listen, I guess in Rob's prepared remarks, one of the things he was talking about was that, in this particular quarter, we sold a significant percentage of our credit card balances. We did it because what we actually did, to be tactical about this, is that we went back and we looked at every balance as it related to a customer. All of those customers where it was a monoline relationship, meaning all we had was a credit card relationship and we hadn't been able to penetrate or get them to buy other products, we ultimately made the decision, as a part of I think Dennis' overall strategy to really exit out of consumer lending, was to sell about $64 million of credit card receivables. So in the process of doing that, that effectively toward our provision by 4 million. There was $4 million on-balance sheet in a reserve that was directly related to this $64 million in credit card receivables.

So if you go back and you adjust the provision expense, you would have seen that it would be approximately $16 million, which is somewhere in the neighborhood of about 1.7 million over charge-offs. If you go back and you look at the last couple of quarters, you've seen us traditionally have reserves in excess of charge-offs ranging anywhere from about 1 to 2.5 or $3 million, sort of in that range. So we would have been right in the sweet spot. So really what drove the economics in this particular quarter was in fact the sale of the credit card receivables and correspondingly lowering the provision by about that $4 million.

Actually, what specifically happened is the provision got lowered by 4 and we also sold the credit card receivables at a net loss--and I think Rob commented on this--of was about 4, so it was really sort of neutral to revenue and earnings. But again, strategically, I'm going to turn it over to Dennis in a minute. I think his view was that he feels that as we continue to build the balance sheet, he wants to move away from consumer and be more focused on exclusively margin and mortgage.

The other point I would make--and you are right--is that when you look at our charge-offs, they increase from about 17 basis points to about 22 basis points in the quarter. What we believe is that there are two things happening. One is sort of the seasonality associated with the mortgage product--I mean, the seasoning of the mortgage portfolio, so as we've added mortgages and HELOCs. The other is that seasonality--if you go back and look at the same quarter last year, you typically have a spike in your consumer portfolio in Q4 around seasonality, which typically reverses as you move through Q1.

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So, I think it would be impossible for us to believe that we are not immune or that we are immune to what's happening on a macroeconomic level, and clearly, macroeconomically, credit is getting worse. I think we believe that we are significantly insulated because of the kind of products we have, the way in which we focus on FICO and LTVs and debt-to-income. I think, at a high-level, I would tell you that one of the things that we look at is our first-lien position mortgages still continue to be about 1 basis point; our HELOCs and (indiscernible) are somewhere in the neighborhood of, you know, anywhere from 6 to 26. So you're blended portfolio in net charge-offs for mortgages is about 11 basis points against a reserve out there of still about, I don't know, 26. So I think we feel pretty comfortable in where we are seeing a bit more of a spike is in consumer, which I think is driving some of Dennis' decisions. Do you want to add anything?

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

There's not a lot to cover but I think Mitch covered most of it, but just, Matt, the one thing I would point to is our allowance. So as of the end of the year, we had $67 million in our allowance and that, again, is our expected losses for the next 12 months. So for '06, you saw actual charge-offs of about $40 million. We are anticipating, in '07, that those losses will increase to about 67 million. So again, on a run-rate basis, absolutely you'll see charge-offs increase, again due to the growth in the portfolio and the seasoning of the portfolio.

Matt Snowling - *Friedman Billings - Analyst*

Okay, great. One other quick question--if I adjust for the 29,000 in accounts loss from I think the corporate services customer, it still seems like the brokerage account growth was somewhat light. I'm just wondering. I know you made a big investment in improving customer service last year and you've been really ramping up the advertising. Is there just a lag before we start seeing lower attrition or am I missing something?

Jarrett Lilien - *E*TRADE FINANCIAL Corp. - EVP, CFO*

You're also forgetting about, so, on the credit card portfolio, that was the--.

Matt Snowling - *Friedman Billings - Analyst*

But does that run through the brokerage account or is that a banking?

Jarrett Lilien - *E*TRADE FINANCIAL Corp. - EVP, CFO*

That runs through the inactivity on the--the closed accounts on the banking and lending.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

All right, so you're talking about the total accounts. You know, what's interesting, though, is that a lot of the--and this is the engagement story, if you look at the growth in the so-called banking account, that's further growth of the investing customers. Again, 85% of the growth in cash came from those existing brokerage customers opening those new banking accounts. So the growth has been in the right place. Really, again, you have to look at what we're talking about when we talk about the targeted segment growth of 31%, year-on-year. Those are the accounts that are driving the lion's share of revenues and profits for us. If we can keep that kind of growth rate going, we will keep the top\-line and bottom-line growth rates going as well.

Matt Snowling - *Friedman Billings - Analyst*

Great, thanks.

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Operator

Richard Herr, KBW.

Richard Herr - *Keefe Bruyette Woods - Analyst*

Just a couple of maybe detailed questions to start off with. Rob, I know you cited the other expenses dropping and that was encouraging to see in the quarter, but it still looked like the other expenses seemed a little bit higher than trendline and was a little bit more than we were expecting. Was there anything else kind of one-time in that number?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

A couple of things rolled through it. One is hedge ineffectiveness is in that number and it was up couple of million bucks, so I think that was one thing. The other was as a--yes, CRA, there was a true-up for our CRA contribution at the end of the year as well as some registration fees related I think to the SEC. The sum total of all of those were, I think, 4 or $5 million.

Richard Herr - *Keefe Bruyette Woods - Analyst*

Okay, that helps tremendously. I guess, going forward, thinking of run rates, we can kind of back that out looking forward, right?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes, I think that's right.

Richard Herr - *Keefe Bruyette Woods - Analyst*

Okay, that's helpful. Just quickly, two other items, you know, the--Rob mentioned also, assuming a 65% tax rate, you made about $0.39. Guidance was $0.37. Is that a change to the guidance or is it just it's just for this quarter you more normalized (multiple speakers)?

Robert Simmons - *E*TRADE FINANCIAL Corp. - President, COO*

No, that's just for the quarter, so yes, as we talked about last December, our guidance for next year is in the kind of $0.36 to the $0.37 range around rate, primarily driven by, well, a couple of phenomenons but primarily it's been 48 adoption, which every public company is now going to be going through in Q1 as FIN 48 is adopted. That's going to have the net effect of probably bring up our rate a little bit, which we reflected in our guidance.

Richard Herr - *Keefe Bruyette Woods - Analyst*

Okay, no, that's helpful. Lastly, just the retail commission, I mean it's only slightly below the guidance range for 2007; it came in at 1188. Is it just international (indiscernible) grew nicely, I mean I know that has a high rate. Is it just a matter of customers, the active customers trading more actively, bringing down the blended rate this quarter or was it really there?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes, there were maybe three key phenomenons that we saw. The first one was that, to your point, mix, right. We just saw more active engagement across the quarter by everybody, as well as more customers who are in that mass-affluent category who are going to qualify for a lower rate because

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they are bringing over that assets and the cash. That's one. The second is, for whatever reason, and we think it was somewhat unique to Q4, we saw a connection with options, strong option volume but less contracts per option, a little bit less. So that had some minor impact on it. The third is you are right. International was very strong, but we've also changed some of the pricing internationally in places like Canada and Germany. So I think the sum total of all of those drove us to I think whatever it was, the 1188. I think, as a team, when we look at this, we're still pretty comfortable with the guidance that we gave for the range in 2007.

The take-away would be, first of all, the most important takeaway is, at the end of the day, in order for--you have to have $0.16 of decline in average commission for the entire year to have it impact our guidance by $0.01. So we are significantly less sensitive today to pricing around DARTs, given our model. So when you look at a couple of cents in a particular quarter, recognizing that it takes $0.16 for a whole year to impact literally $0.01, it becomes less relevant.

But I think the other point is that, typically, what you would expect to see is when you might see a decline in average commission, you typically have more engagement, whether it's in trading and therefore you get sort of on a rate/volume basis, in terms of earnings, the rate is more than offset by the volume as well as typically you're seeing this additional engagement in the form of cash and otherwise, which is driving revenue and profit. So I think we feel pretty comfortable with what we've given as guidance for '07.

Richard Herr - *Keefe Bruyette Woods - Analyst*

Okay, good. Just one last question, I Promise. That is you got the approval to start consolidating the bank and brokerage balance sheet. Just kind of looking at the average balance sheet here and looking at the different funding that you're using, it looks like certainly, on a mix basis, the retail deposit is up; brokerage CDs, it looks like they are down. Is this just kind of the tip of the iceberg in terms of the migration to the one balance sheet or are we, like, in the fifth inning?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

No, we are in the first or second inning of the process.

Richard Herr - *Keefe Bruyette Woods - Analyst*

Okay, thank you very much, guys.

Operator

William Tanona, Goldman Sachs.

William Tanona - *Goldman Sachs - Analyst*

Good afternoon, guys. The compensation rate actually bumped up pretty significantly. I just kind of want to know or understand what was driving that towards year-end.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Happy to do it. First of all, I think we guided next year that comp and benefits would be between 18 and 19% of revenue. If you look at what it was in Q4, we're right in that range. It's actually down in Q4 over Q3 as a percentage of revenue.

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So typically what happens is your comp and benefits are going to move up and down in terms of absolute dollar amounts because as volumes--a lot of it's variable based on volumes. As volumes pick up in terms of our business model, you're going to see an increase in comp and benefits. So I think the best way to think about it, which is the way we guided to, is as a percentage of revenue.

William Tanona - *Goldman Sachs - Analyst*

Okay, that's fair. Then I guess, looking at the complete savings, just kind of help us understand kind of who the target audience there. Obviously, you're offering a very, very attractive rate, so kind of give us a sense as to the success you had with it. I guess do you worry that you're kind of looking to attract maybe fast money into E*TRADE and not necessarily building longer-term customer relationships with them?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes, it's a great question. So first thing that we typically focus on, and I think this is why Jarrett said it and Bob said it, and I think about consistently, and that is when you look at the growth in deposits, what percentage of that growth, in terms of absolute deposits and accounts, is coming from your existing investing customers, so either the ones that are with you or the ones, the new ones that you've added during the quarter. We are pretty consistently running between 80 and 90% of the growth in deposits in these last few quarters are coming from our existing base of customers.

So in the old days, when I ran TeleBank, I used to worry about hot money because you could be offering a competitive rate; you could see where it was coming from; you weren't connecting with that investing customer; it was somebody who was basically looking for a way to put some of their savings into an account for some period of time. What we've found is, as you can penetrate these core investing customers, it is a much stickier and deeper relationship when you offer them not only the assets and the trading but also an opportunity around their cash investing needs. That's the first thing.

The second and I would say is that, you know, we were really pleased to be able to grow 2 billion in this quarter. We were really pleased, and you can see it, to be able to grow in a whole host of products, all of which were transactional, all of which we viewed as being sticky, with these investing customers at a cost of funds that basically priced up right in line with what was happening on the asset side. So that's why you saw spreads relatively flat, only down 1 basis point.

So ultimately, what we are specifically try to do is go after this mass affluent customer, recognizing that they have two kinds of cash. One is the cash that's to be invested, so it sits in an account which is less rate-sensitive and they're thinking about moving it into and out of fixed-income or equities, as well as their invested cash, which is typically, you know, 15 to 18% of their liquid net worth. What we're trying to do is offer them a place to be able to have both of those kinds of cash with us, so that you're getting them either as they are migrating their money from one area to the other, they are usually backfilling it or pulling or replacing that with cash that had been in another institution, or they are just keeping it in there to be invested and moving their fully invested cash over to us. So, I think that is the kind of growth and where we're seeing the growth come from in this mass affluent or target sector.

William Tanona - *Goldman Sachs - Analyst*

Do you guys note essentially where that cash is coming from? Is it coming from your traditional banking institutions or is it typically the (multiple speakers)?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

It comes across the board. In fact, our fastest growth in market share and products is typically coming from the brokerage firms. So from Merrill, Morgan, UBS, Citi/Smith Barney, across the board. So, we do get some but typically what happens is you see the account [TOA] in from one of the big brokers and then they will bring cash over from there, or they may have a corresponding cash relationship in another bank which they move into E*TRADE Financial. That's typically how we see it happen. I mean, it's one of the things; I love it. You know, when the BofA announcement

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came out, the big focus was what would it mean for offering--you know, what would we see happen around either our growth in DARTs and trading because of people migrating to BofA for their trading platform, or would it somehow or other impact us with respect to our ability to grow cash. I think--listen, you can't ignore any competitive offering or any competitive environment, but at least as we've looked out, looked back over these last couple of quarters, we feel pretty good about what we've seen on both the trading and cash side.

William Tanona - *Goldman Sachs - Analyst*

I guess, on that point, were you surprised at all at the record deposit growth, given that offering? I mean, would you have expected it to be as strong as it was (multiple speakers)?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

I think we certainly expected it to be, but we're pleased to see it happen through execution. But I think our view has always been that the customer that we're trying to engage with and the customer that we currently have is here because they understand the value proposition. When it comes to trading, the value proposition price matters but speed and execution and quality matter as much or more, and that when you think about the cash product, what drives their decision is value and the creation of a better return for them. So what we're trying to do is continually use technology as a disintermediator and as a competitive differentiator to be able to have a lower cost structure, give it back to the customer and give it to the shareholder.

William Tanona - *Goldman Sachs - Analyst*

Yes, excellent. Then I guess the last question--you guys are going to start reporting net new assets next quarter. I wondered if you would be willing to share that with us this quarter, just (multiple speakers).

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes, we did. I'm sorry, we probably moved through it pretty quickly on the script but I think it was in your section; it was 1.3 billion. So we had net new asset retail inflows of $1.3 billion in Q4.

William Tanona - *Goldman Sachs - Analyst*

Great, excellent. Thanks.

Operator

Howard Chen, Credit Suisse.

Howard Chen - *Credit Suisse - Analyst*

Most of my questions have been answered, but maybe a couple. Back to the credit card sales for a moment, are there more receivables that fit in that bucket you sold? Historically, I know, Mitch, you've said you've liked the variable rate characteristics of credit cards; you like the customer stickiness that those assets bring. Has that thinking changed at all?

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Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

No, not as long as we can get them to engage with us in other products. So to the extent that -I think probably what's more interesting to us this if we have a current investing customer and they choose to take and adopt credit card, it would be interesting, all right, so that they've got other relationships with us. That's why, as we went through it and Dennis looked at the portfolio, I think his view was--and you should just really enter this--you wanted to move out of consumer but--what do you want to add?

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

I think that's it. I mean, in terms of variable assets, we do have other variable assets on the balance sheet, including the margin balances and the HELOCs. So this is in the context of the overall balance sheet, that when we looked at these credit cards on a risk-adjusted basis versus other assets available to us, we thought that we would be better off selling this portfolio.

Howard Chen - *Credit Suisse - Analyst*

Sure. Are there more credit card receivables like that portfolio?

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

We still have a little over $100 million on our balance sheet. At this point in time, you know, we are very comfortable holding those assets and those customers.

Howard Chen - *Credit Suisse - Analyst*

Okay. Mitch, you slightly touched on this answer or this question a little earlier in the call but I thought one of the interesting things that I saw in one of your peers' earnings were that their net rate earned--net interest rate earned on MMDA balances actually went up during the quarter. You've been really successful in competing for client cash and paying attractive rates, as mentioned before. But are you seeing any disproportionate wins here from other online base players less competitive on yields as you are?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes, I think that we have been successful at gaining market share. I mean, we look at that from our overall direct competition across the board, but right now, I think all of us in this space are benefiting from this migration from the big sort of traditional brick-and-mortar brokers, in terms of account growth, and with that account growth, it is typically becoming a relationship. I think what may be happening is that we may just be doing I hope a better job at trying to win market share from the big brokers into our business model, because when the customer is evaluating us and some of the competition, we have a pretty interesting proposition around a whole value package in terms of the price, the functionality, and the service across all the different products.

Howard Chen - *Credit Suisse - Analyst*

Great, thanks.

Operator

Joe Edelstein, Raymond James.

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Joe Edelstein - *Raymond James & Assoc. - Analyst*

Good afternoon, Mitch. I just have two questions relating to the international front. The first, could you give us an update on your progress with the UK bank charter, or an alternative thereof, what you're planning to offer an insured deposit-only product. Then secondly, if you could just update us on the status of the tender offer to control--for the controlling position in the IL&FS Investmart position in India.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Perfect, happy to do it. For the first one, with respect to the International Banking Charter, the first Charter that we're looking to get internationally is in the UK. Obviously, we've talked about this. The reason that we are interested in getting it in UK is because it's just a base of operations that can be used to passport into all of the EU countries. So I think we guided in December that we thought we would have that in the first half of this year in 2007, and nothing has changed. We feel comfortable in terms of that sort of general guidance.

I think the facsimile thereof that you're talking about, which is sort of interesting, is in the process of beginning to build out the platform, we recognized that you can actually begin to take deposits from your current customers and the customers as you grow them, internationally, to the extent that you have a broker dealer license. So we can't go out and actively market in the marketplace the ability to grow cash, but we can market to our customers and current, prospective and new customers in a way in which we can offer them value around those cash products. So I think he will be helpful for us, as we are in the process of waiting for the Charter to be approved in the UK, to be able to do some of that and be able to grow balances. You know, you saw it happen in Canada. I think we talked about it, where we had strong growth in customer cash internationally this quarter, some of which was driven by the Canadian operations where we launched the first product offering there around sort of a cash vehicle.

With respect to IL&FS, the tender is out. We are hoping that the tender, that the finalization of the tender will be very early February. Our expectation is that we will be successful enough to basically be at a place that we're right, at about 50% or so, or control, which is where we want to go.

Then going forward, as appropriate, we will continue to build our position, take a larger and larger position as we work strategically with Investmart, which is in fact the subsidiary of IL&FS in which we will have a controlling position to work not only around the brokerage world and trading and investing, but also to look for opportunities in the banking world in India as well.

Joe Edelstein - *Raymond James & Assoc. - Analyst*

Your ownership level today is roughly 32.5%?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

It's actually a little bit higher than that. It's 32.5 exactly--I though it was about 38? So, it's about 32.5 as of right now.

Joe Edelstein - *Raymond James & Assoc. - Analyst*

Okay, thank you very much.

Operator

Prashant Bhatia, Citigroup.

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Prashant Bhatia - *Citigroup - Analyst*

Mitch, on the loan growth, the $3 billion, how much of that was originated versus purchased?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

I think we had about 2 billion. I can't remember the exact number. I will get it to you when we do the callback. (indiscernible) originations in the quarter, in terms of our own E*TRADE mortgage operation.

Prashant Bhatia - *Citigroup - Analyst*

Okay. Then, the lost accounts on the corporate services side, is it fair to assume that there's not really much revenue impact?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes.

Prashant Bhatia - *Citigroup - Analyst*

Okay. Of the 3.6 million investing accounts that you have, how many are corporate service accounts?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

We have never disclosed that but stay tuned.

Prashant Bhatia - *Citigroup - Analyst*

Okay. Then, in terms of the net new assets, you said 1.3 billion?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes.

Prashant Bhatia - *Citigroup - Analyst*

But then you said the cash grew 2 billion so do you assume--.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

That's right.

Prashant Bhatia - *Citigroup - Analyst*

--the securities--your clients are pulling out brokerage securities or brokerage assets?

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Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

That's correct. They moved. That's correct. (multiple speakers).

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

There are a whole bunch of things that can go on. If you look at the total picture on the asset side, you've got some of that corporate services business for instance, so you've got other types of assets. It could be stock options or restricted shares. When those options get exercised and sold or shares sold, some of that goes into cash. Likewise, you've got new cash coming into the Company and then likewise you can have cash going in or out of the market. So those are really the movers. In all of that movement, we had 2 billion more cash in the quarter.

Prashant Bhatia - *Citigroup - Analyst*

Okay. Then finally, you said I think 80 to 90% of the growth is from existing customers.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

That's right.

Prashant Bhatia - *Citigroup - Analyst*

When we think about the advertising spend, is that targeting really new customers or is it really just both and there's no way to separate it?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

It's both. So a good way to think about it is, when we say 85% of the growth in deposits came from existing investing customers, that means the ones that were there before the quarter and the new ones that were added during the quarter.

Prashant Bhatia - *Citigroup - Analyst*

Okay.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

So the way in which Nick would tell you to spend his market dollars is he is trying to target a particular kind of customer to come into the system. When they come in, our goal would be to have then bring assets and cash initially as they open the account. so when you look at the growth in the deposits of 2 billion, I think we said 85% came, some of them came from the customers who were there as of the end of Q3, and some of it came from the customers who were added in Q4. They were just all investing-base customers.

Prashant Bhatia - *Citigroup - Analyst*

Okay, great. Thank you.

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Operator

Matthew Fischer, Prudential Equities.

Matthew Fischer - *Prudential Equities - Analyst*

Good evening. With time winding down, just a quick question. If you don't mind, could you quickly walk through the--you mentioned the core results of about--of $0.39, in line with consensus. What gets us that, including I guess the normalized tax and if you could just--?

Robert Simmons - *E*TRADE FINANCIAL Corp. - President, COO*

Yes, sure. So there's two, as we talked about in the script; there's really two kind of unusual items that we would pro forma to get to the $0.39 results, you know, as opposed to the $0.40 that we published. The first is the restructuring; that's roughly $0.015 impact on the quarter. Then the second there is the tax benefit that was recorded in the quarter of roughly $0.03, so that the net of those takes you from your $0.40 reported EPS number to a pro forma [39%] number when you use about a 35% normalized rate.

Matthew Fischer - *Prudential Equities - Analyst*

Okay. Then, the last thing, you know, you spoke a lot about the strong retail engagement, so I'm just curious as to when this sort of came about. Has it been steady throughout the quarter, went up again? Has it been trending upward or if you could just provide maybe some color in terms of the engagement.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Well, I think, to be fair, we have seen the engagement really sort of continue to grow throughout all of 2006. So, one of the things that we talk about is really better understanding the customer segment and looking at the growth rates of those customers, you know, the 31% growth rate in those target customers, and then understanding the engagement of those customers, in other words, where does it start? How does it build over time?

I think it's fair to say, when you look at the performance in terms of whether it's trades or cash or credit origination, or assets, it has continued to build quarter-over-quarter. I think it's probably even fair to say that, within Q4, we saw it build during the course of the quarter. So it's one of the things I think, as we were looking at the trendline over the last 12 months, in specifically the last 4 quarters and then particularly what was happening in Q4, it gave us the comfort to think about what it is we wanted to do in '07 around the marketing spend, around the RM spend in order to be able to continue to drive that growth and engagement and be able to give guidance in '07 around all of the numbers for DARTs and cash and margin and credit, etc., in order to ultimately roll up to the guidance. So I think we are seeing increased engagement and therefore some improving metrics as a result of that.

Matthew Fischer - *Prudential Equities - Analyst*

Okay, great. Thank you.

Operator

Campbell Chaney, Sanders Morris Harris.

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Campbell Chaney - *Sanders Morris Harris - Analyst*

Can you give me the breakdown or the split in your $3.4 billion increase in mortgage and HELOCs? How much was in mortgages and how much was in HELOCs?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Mr. Webb!

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

So, roughly it was two-thirds/one-third focused on first mortgages.

Campbell Chaney - *Sanders Morris Harris - Analyst*

So two-thirds first mortgages?

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

That's correct.

Campbell Chaney - *Sanders Morris Harris - Analyst*

Great. The next is, looking at your capital ratios for the thrift, I noticed the tier one went up yet the total risk base came down. Can you explain what was going on there? Are you taking on more risk under the balance sheet or just what happened?

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

I guess more on a forward-looking basis, yes, the ratios that you are seeing are our ratios that we're comfortable with. So, all things being equal, what we would expect to see is a tangible capital ratios somewhere between 5.75 and 6, and the risk-based capital ratios pretty much right where they are today. So that's an active trade-off and this is the regulatory rules. You know, essentially what we're looking at is more and more towards a Basel framework, whereas right now, if you look at the regulatory rules, you know, effectively we think the risk weighting of our assets are significantly basically too high under the current regulatory environment. Under Basel the risk ratings will be even lower because of the high FICO scores and low LTV--or you know low LTVs that Rob spoke about earlier.

So under Basel II, to you could free up some capital, is that (multiple speakers)?

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

That's right. So again, when you look at our second liens and margin lines by way of example, those are considered 100% risk-weighted, and yet, with the credit characteristics and the FICO scores that we've seen, the expected losses are low relative to the majority of 100% risk-weighted assets.

Campbell Chaney - *Sanders Morris Harris - Analyst*

How much capital could you free up? Have you run those numbers?

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Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

No. (LAUGHTER) That's just a-- (LAUGHTER). (multiple speakers). I have Mitch waving me off, but let's just say that it's absolutely something that's on our radar that we are consistently monitoring and managing.

Campbell Chaney - *Sanders Morris Harris - Analyst*

Okay, I got you. Then one final thing--I noticed you took out your reserve to nonperforming asset coverage ratio in the press release. Is there a reason why you are no longer including that?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

(indiscernible) Mr. Webb?

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

Again, we spoke to that a little bit. The ratio went from 128 to 84%. Again, the main reason we took it out is, as we look forward and as we had our consumer loan portfolio, which consisted predominantly of boats and RVs, as we sold Ganis a year ago, that portfolio is in a run-off situation. So over time, that $3 billion portfolio will continue to run-off. We think that ratio is less meaningful than what it would be, which is supposed to be some type of coverage ratio. So as you look at mortgages, for example, you know, what shows up in the denominator of nonperforming loans is the full, unpaid balance, whereas the expected loss in basis point is significantly lower. And so that ratio is actually going to be misleading as we change this mix to predominantly high-quality first mortgage assets.

Robert Simmons - *E*TRADE FINANCIAL Corp. - President, COO*

Campbell, one thing, I mean that is--it is a guidance (indiscernible) item, so you'll continue to see that ratio in our public filings, but it just has a lot was relevance today so we pulled out of the release.

Campbell Chaney - *Sanders Morris Harris - Analyst*

No, I understand. It's just--so most of the nonperformers in that 30 basis points, would that be in the consumer book, the old Ganis portfolio?

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

No. The increase in what you'll see is in mortgage loans, which again on a loss-expected basis is very small in basis points.

Campbell Chaney - *Sanders Morris Harris - Analyst*

Okay, I got you. Thanks a lot.

Operator

Michael Hecht, Banc of America.

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Michael Hecht - *Banc of America Securities - Analyst*

Good evening, guys. Most everything has been asked by now, just a few quick follow-ups. I did note that like the mix of wholesale funding, if I look at the average enterprise balance sheet this quarter, kind of ticked up a little bit despite the strong deposit growth. Just any color there on what we should--you know, how we should be thinking about that over the course of '07, you know, the FHLB advances and the repo funding?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes, I think (indiscernible) but if you look at the actual mix improved, which is how we think about it. So we think about cash and deposits as a percentage of interest-bearing liabilities and it improved. So it went from, if I remember correctly, 62 to 63% quarter-over-quarter, and up from the mid 50s a year ago. So you're growing your overall balance sheet, but we disproportionately grew on the liability side the cash as opposed to wholesale borrowings, which is what you would intend to continue to do, moving us towards the goal of about 70%.

Michael Hecht - *Banc of America Securities - Analyst*

Okay, that's fair. I mean, it was only like a modest tick-up in the other two and I just--we should assume that might continue to tick down if the others continue to grow, right?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Well, I think what will happen your wholesale is still going to grow; it's just going to grow less quickly than your deposits, continuing to move you in a place where you are at about 70% cash as a funding vehicle of your total liabilities.

Michael Hecht - *Banc of America Securities - Analyst*

Okay, that's fair enough. I'm sorry if I missed this in your prepared remarks. Did you guys talk about the mix of options trades this quarter?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

We did, and I think it was flat. I think it is about 12.5%.

Michael Hecht - *Banc of America Securities - Analyst*

12.5% this quarter?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

14 (multiple speakers)

Robert Simmons - *E*TRADE FINANCIAL Corp. - President, COO*

14.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

14%, sorry.

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Michael Hecht - *Banc of America Securities - Analyst*

14, okay. I had 13 last quarter. I don't know if that's right or not, but okay.

Then, a lot of your competitors have talked about January metrics and nobody seems to want to ask, but I mean everyone else is up 15 to 25% in January so far. I mean, is it fair to say you guys are in that range?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

I think we're going to be in exactly the same range as everybody else and hopefully we're going to do even better.

Michael Hecht - *Banc of America Securities - Analyst*

Okay, that's fair.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

We continue to focus on market share and if we can gain market share, we should have strong performance.

Michael Hecht - *Banc of America Securities - Analyst*

Okay. The last question--I saw you guys opened up three branches during the quarter. Just any thinking on how we should think about that for the course of '07 and the strategy around having a RA firm to refer clients to in every major region? I mean, any updates there?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes, I think, when we gave guidance in December, what we talked about was that we were advancing out. We are at about 24 branches; I think we were maybe at 21 or something toward the end of last year. We talked about getting to the mid 30s. We thought that we would try to get that accomplished as we moved through all of this year, perhaps a little bit into the beginning of '08. So I think that's a reasonable expectation for the growth.

Then, we're getting to the number that we always said we thought was the right target and then we will evaluate. I mean just given what we are seeing, we still believe that puts us in a place where within--I don't remember whether it was 20 miles or 25 miles--we can cover about 80 or 85% of the wealth of all of our customers. That's one way in which we're looking at it and we--you know, one of the concerns we all have is making sure that we monitor this and look for diminishing returns in advance of actually having any sort of issues. So I think that's the first thing.

With respect to advisors, we continue to look for opportunities in those areas which sort of bring together both a branch as well as a strong one or multiple corporate service relationships. I think we will continue to grow that. What we are also working on at the same time is not only the acquisition of firms but also the acquisition of individuals in the form of lift-out to put into either our current physical locations where we are in Dallas or L.A. or Boston or wherever, as well as just lift-outs for whole new areas. So more to come as we go through this year.

Robert Simmons - *E*TRADE FINANCIAL Corp. - President, COO*

The only other thing I would add back to your first question on the DARTs is just that January is good. January is expected to be good and if you look at our full year '06, we ended at about 159,000. Our guidance for '07 is 170,000 to 200,000, so you know, we expect good but it's already built into our expectations going forward.

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Michael Hecht - *Banc of America Securities - Analyst*

Fair enough. That's helpful, thanks.

Operator

Roger Freeman, Lehman Brothers.

Roger Freeman - *Lehman Brothers - Analyst*

Good evening. I just had a question. In the institutional segment, your commissions were basically flat sequentially. You know, market volumes were up about 7%. I was just wondering if there's any market share loss or commission compression that you are seeing there.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

It really was driven by actually soft dollar. So ultimately, it was totally related to sort of the soft dollar performance. Dennis, do you want to--?

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

Sure, I will just elaborate on it. So our accounting is one where the soft dollar commissions are gross, and so as we've seen a mix from soft dollar to straight commission, the actual revenue line declines. That research cost quarter-over-quarter were worth about $1.6 million. So if you adjust for that, what you actually see is institutional commissions up about 6% quarter-over-quarter. So on a net revenue basis, we are up by that amount.

Roger Freeman - *Lehman Brothers - Analyst*

Okay, that's in line with market growth. I guess just also on the institutional segment, can you remind me what you have done or are planning to do with regard to building some sort of an offering that lets the institutional customers interact with your order flows in sort of a matching effort? Have you done anything on that yet or are you planning to?

Dennis Webb - *E*TRADE FINANCIAL Corp. - President of Global Asset Management*

We have a couple of different initiatives that I would rather just hold off until it's ready for prime time, but it's in various stages of development.

Roger Freeman - *Lehman Brothers - Analyst*

Got it, okay. Then lastly, you might have addressed this. The Professional Services line ticked up in the fourth quarter; it looks like it did last year, too. Is there anything that drives that typically in the fourth quarter?

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Yes, I don't know. Inevitably, there seems to be something that happens in the fourth quarter. But when we really dug into it, it looks like the increase of 5 or 6 million was predominantly driven by legal expenses as well as some consulting fees. Our expectation is that it would return to the Q3 level. That was the more normalized level that you should expect to see going forward.

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Roger Freeman - *Lehman Brothers - Analyst*

Got it, okay. Thanks a lot.

Operator

Thank you. We've reached our allotted time for this call. I would now like to turn the floor back over to management for any closing remarks.

Mitchell Caplan - *E*TRADE FINANCIAL Corp. - CEO*

Thanks, everybody, for joining us and we will speak to you on the next call.

Operator

This concludes today's E*TRADE conference call. You may now disconnect your lines at this time and have a wonderful day.

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