REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ETFC.OQ^J20 - E*TRADE FINANCIAL Corporation Announces 2007 Earnings Guidance Conference Call

EVENT DATE/TIME: DECEMBER 14, 2006 / 9:30PM GMT

OVERVIEW:

Management reported that, in 2007, it expects to generate strong top and bottom line growth, outpacing its previously stated goals. ET is projecting 2007 total net revenue of $2.75-3.00b, and GAAP EPS of $1.65-1.80.

REFINITIV

CORPORATE PARTICIPANTS

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

Jarrett Lilien *E*TRADE Financial Corp. - President & COO*

Rob Simmons *E*TRADE Financial Corp. - CFO*

CONFERENCE CALL PARTICIPANTS

Rich Repetto *Sandler O'Neill - Analyst*

Matt Snowling *Friedman, Billings - Analyst*

William Tanona *Goldman Sachs - Analyst*

Richard Herr *KBW - Analyst*

Mike Vinciquerra *Raymond James - Analyst*

Prashant Bhatia *Citigroup - Analyst*

Roger Freeman *Lehman Brothers - Analyst*

Matthew Fischer *Prudential - Analyst*

PRESENTATION

Operator

Good afternoon. Welcome to E*TRADE Financial Corporation's 2007 earnings guidance conference call. At this time, all participants have been placed in a listen-only mode. Following the presentation, the floor will be opened for questions.

I've been asked to begin this call with the following Safe Harbor statement. During this conference call, the Company will be sharing with you certain projections or other forward-looking statements regarding future events or its future performance. E*TRADE Financial cautions you that certain factors, including risks and uncertainties referred to in the 10-Ks, 10-Qs, and other reports it periodically files with the Securities and Exchange Commission, could cause the Company's actual results to differ materially from those indicated by its projections or forward-looking statements. This call will present information as of December 14th, 2006. Please note that the Company 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 measures in talking about its performance, and you can find the reconciliation of those measures to GAAP in the Company's press release, which can be found on its website at www.etrade.com. This call is being recorded. Replays of this call will be available via phone, webcast and podcast beginning at approximately 7:00 p.m. Eastern time today, through 11:00 p.m. Eastern time on Thursday, December 28th. The call is being webcast live at www.etrade.com. No other recordings or copies of this call are authorized or may be relied upon.

I'll now turn the call over to 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?

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

Good afternoon, and thank you, everyone, for joining us today. This past year has been another extraordinary one for the Company. In addition to achieving robust organic growth, particularly in our targeted segments, we successfully completed the integration of two acquisitions, bringing over 600,000 new, high-value accounts onto our platform. We continue to enhance and refine the three components of our overall value proposition; price, functionality, and service, through strategic investments in each. We invested in marketing to extend the brand and drive broader awareness of our full suite of products. From a structural perspective, we received all regulatory approvals necessary to move into the final phase of our brokerage and bank balance sheet integration. Through what we achieved in 2006, and the investments we have made over the past several years to create greater scale and efficiency throughout the business, the Company has now reached an inflection point, and is poised to generate accelerated growth in 2007 and beyond.

We have long said that we define ourselves as a growth Company based on our ability to generate annual revenue growth of 10% to 15%, earnings growth of 15% to 20%, with an operating margin approaching 50%. From our current inflection point, the Company is positioned to not only meet, but exceed those growth targets in 2007. Based off the current 2006 consensus revenue and GAAP EPS estimate, the annual guidance we establish today reflects revenue growth of 14% to 24% from the low to high end of the range, GAAP EPS growth of 15% to 26%, with an annual operating margin of 47%. Most importantly, we expect to deliver these strong results even as we make additional investments in marketing and service.

Embedded in the midpoint of our guidance is an increase of $85 million in marketing, as well as service expenses, primarily related to additional relationship managers. Holding these expenses constant as a percent of revenue, you'd expect an increase of $40 million year-over-year. We are choosing to invest this additional $45 million or $0.06 per share in 2007 to build on the success we have already seen from similar investments in 2006. In addition, our expected earnings for 2007 assumes no benefit from investment gains within other income. This is in contrast to 2006 where we will realize approximately $0.10 in gains coming from the sale of our IFC and SBI investments. As a result, to make an appropriate growth comparison, $0.10 should be backed out of the mid point of our 2006 GAAP guidance range, reaching a baseline of $1.33. Given our 2007 GAAP earnings range of $1.65 to $1.80 per share, the growth off of this adjusted number is 24% at the low end of the range and 35% at the high end of the range, well in excess of our stated growth goal and proof of the success we have achieved over these past several years.

We expect to generate these results as a function of three core growth initiatives in 2007. The first is building on the success that we achieved year-to-date, we will continue to drive growth in target segment accounts. We will achieve this through a continued investment to attract and retain these target segment accounts while migrating Main Street into this segment, all through our investment relationship managers and marketing. Second, we will deliver continued improvement and profitability throughout the model as the result of greater integration, scale, and efficiencies, including the full-year benefit of Harrisdirect and Brown, as well as moving clearing under the bank. And third, we will generate accelerated growth through success in our Corporate Services and international operations, two avenues for growth that are unique to our model. In addition to these initiatives, but not embedded in our guidance, is the continued opportunity to supercharge growth, scale, and efficiency through accretive acquisitions in any of the core areas of our business. This includes opportunities both domestically, as well as internationally, and across transactions, cash and credit originations, or asset aggregation.

I'd like now to spend a few minutes detailing the opportunity around each of our key initiatives. With respect to driving growth in our high value accounts, we've identified two significant tailwinds working for us as we move into 2007. The first is the success we have experienced in 2006, particularly in Q3 and this quarter, with growing high value accounts. This is the result of having the right product with the right value proposition to properly serve these customers for the long term. From a secular growth trend perspective, the mass affluent segment of the population, which we define as those households with between $50,000 and $500,000 in investable assets, continues to be largely underserved by the traditional providers. Not only is this group largely underserved, but it represents the largest and fastest growing portion of the global population. Based on our research and that of third party research firms, the universe of global mass affluent customers is approximately 80 million households with nearly $12 trillion in investable assets. This group is expected to grow at twice the pace of the population through 2010, with the subset seeking value from price and functionality rather than from brick and mortar, growing at an even faster rate.

As the traditional firms continue to focus their attention on the higher net worth clients, the mass affluent customer is increasingly becoming disenfranchised. Looking for an alternative that provides them with the greatest overall value proposition, they are migrating to our model at an accelerating pace, and represent our single largest source for new account growth. While active traders continue to be very important and represent a high value customer segment for our model, the size of the mass affluent universe and the secular trends underway, represent more sustainable, long-term growth opportunities. To show the power of these customers within the context of our model, every 1% penetration of this mass affluent universe translates into $450 million in incremental annual revenue.

While we remain very early in our transition to the mass affluent customer segment, we are already seeing positive results. In 2006, we deployed a targeted segmentation strategy to spur organic growth and drive greater customer engagement. We tested and learned much about what drives greater engagement, especially in this high value target segment. These target segments accounts are extremely valuable to our model, since the customers hold asset levels that are four times that of our average account size, they trade five times as often as our average account, and they hold three times as much in cash balances. Through our marketing and service investment in 2006, we are driving annual account growth of approximately 30% in these segments, and the result is showing up in the growth we've generated in per-customer metrics around assets, cash, credit, and revenue.

The second tailwind for 2007 is our decision to incrementally invest $45 million in marketing and service over and above the baseline as a percent of revenue, as we previously mentioned. We intend to take what we have learned with respect to growth, attrition, and migration, and scale it to drive greater organic growth in assets, cash transactions, and credit. The combination of these factors is now translating into more opportunity than ever before for accelerated and accelerating organic growth. With respect to our second initiative to drive greater scale and efficiency, we are now realizing the benefits of the integrated technology, operations, and service platform that we have spent the past four years creating. Going forward, we can continue to deliver differentiated, high-value products and services cost effectively and at an attractive return, while at the same time investing in innovation, service, and marketing to drive future growth. Given our uniquely integrated model, we can efficiently monetize the growing universe of mass affluent customers across multiple points of engagement, including assets, cash, transactions, and credit.

Through the scale and leverage that we have achieved, we are now able to drive an incremental operating margin of approximately 75% across the model on the next dollar of revenue, regardless of the customer's next point of engagement. This represents a significant competitive advantage and improved stability in our revenue generation. We then further monetize each point of customer engagement through our institutional segment, generating superior returns on an enterprise basis, and a total Company return on incremental capital of 22% in 2007.

With respect to our third initiative, we are poised to generate strong growth as a result of having now also reached an inflection point in our international retail and Corporate Services businesses; two opportunities that differentiate us from our peers. While others exited the international landscape five to six years ago, we remain steadfast in our mission of creating an integrated global financial services company. We rearchitected our technology platform to operate internationally and to leverage the scale of our global operations, and we focused on achieving holistic profitability. In doing so, we took our international operations from losing approximately $50 million a year, to sustained profitability. While still contributing under 10% of total Company revenue and profits, the growth rates are dramatically outpacing that of the U.S., and now drive over 10% of our total retail trading volume.

Having built brand and strong market share in the active trader universe abroad, we are now positioned to export the U.S. model to our international locations throughout Europe and Asia, delivering exceptional value in cash and credit products, as well. Most importantly, we are positioned to do this with little to no increase in infrastructure buildout, as the platform is already in place and paid for. In order to do this, we are actively pursuing a UK banking charter which will allow us to passport into our pan-European locations. We believe this represents a unique opportunity to leverage our U.S. model and tap an entirely new area of long-term growth potential for the Company in Europe, and ultimately in Asia, as well as the emerging markets, such as China and India, where we are already making progress through our increased ownership in IL&FS Investmart. As we said in our last quarterly earnings call, we expect international retail to contribute 30% of total revenue by 2010.

In Corporate Services, we have also re-engineered the business over the past year to improve success. Where we once focused solely on providing corporate clients with employee stock option and option plan administration, we now focus on new retail customer relationships and asset retention through this channel, and we are seeing results. In 2006, we have retained 21% of option proceeds from this channel. With over $30 billion of vested options, this business represents a unique, captive pipeline of future mass affluent customers, and high quality client asset growth. As we continue to focus on the opportunity of this pipeline and enhance the overall Corporate Services client experience, we believe we can continue to generate accelerated cash and client growth through this channel, as well as drive deeper engagement among these clients in trading, investing, and lending.

Before I turn the call over to Jarrett to discuss the details of how we will execute on these initiatives in 2007, I'd like to comment on the announcement we also made this afternoon regarding our move to NASDAQ. While we have enjoyed a great relationship with the NYSE over the last six years, we are taking this step to better align ourselves with the market that best meets the needs of our customers. Today, 99% of our customer orders are executed on NASDAQ, and other all-electronic markets. In addition, we are delighted that this relationship with NASDAQ brings a unique opportunity for us to offer stock plan administration services to NASDAQ's listed companies through a partnership between us and NASDAQ and, specifically, with our Corporate Services business. Given NASDAQ's association with many of the world's fastest growing and most innovative companies, we are excited about this opportunity, as we believe it will be an important driver for our Corporate Services growth in 2007 and beyond. Our common stock will begin trading on NASDAQ on December 27th under the ticker symbol ETFC, and we look forward to building on this renewed relationship. With that, I'll turn the call over to Jarrett.

Jarrett Lilien - *E*TRADE Financial Corp. - President & COO*

Thanks, Mitch. In 2007, we will deliver strong results by growing and retaining our base of mass affluent customers, active traders, and customers with both characteristics, these all representing our targeted accounts. To create a value proposition that appeals to these targeted clients, we recently strengthened functionality, with the rollout of a new E*TRADE website that includes major enhancements in usability, customization and self-service. Continuing our commitment to providing customers with leading edge tools and resources, we recently launched a new retail futures offering, including a dedicated derivatives service team and professional quality functionality. In 2007, we also plan to roll out for our U.S. customers direct market access to six foreign markets, with full cross-border, multicurrency clearing and settlement services. This unique opportunity for our U.S. customers to invest directly in foreign securities is an offering made possible by our existing international retail infrastructure. These enhancements are designed to engage prospective and existing customers in a more unique and meaningful way, to drive growth and migration and to reduce attrition.

Beyond functionality, we will drive growth through operational excellence and service. Today, approximately 50% of our clients with $250,000 or more in assets with us have an assigned relationship manager. Given the growth and product utilization and asset in-flows that we have generated from customers with assigned relationship managers, we will invest in hiring additional relationship managers to reach more customers within the segment. On a broader scale, we view customer service generally as a virtue of cycle. An improved customer experience drives deeper customer engagement and growth in wallet share, resulting in a customer with a stronger relationship which, in turn, drives further engagement. Through the investment in service we made earlier this year, we are already seeing evidence of improved customer engagement given the strength of our third quarter results across each of investing, trade, and cash and credit, and embedded in our solid November metrics released this afternoon. Given this success, we will continue to invest in customer service to bolster this component of the overall value proposition, and to migrate more of our Main Street customers into the mass affluent segment.

In 2007, we also expect to make targeted investments in marketing, both domestically and internationally, to continue to increase awareness of our broad offerings and drive growth in our target customer segments. We expect a marketing spend of between $150 million to $180 million in 2007, while maintaining a strict discipline for our return on investment. We will optimize our mix of offline and online advertising spend to expand product awareness and increase our competitive share of [voice]. As the investment in relationship managers, service and marketing drive greater engagement, increased scale across the business will drive greater leverage and profitability in the model. Our integrated back office and technology platform will continue to deliver significant leverage next year with the growth in customer assets, cash, credit, and transaction volumes. Further efficiencies will come from the implementation of new technologies to drive down unit costs, as well as the use of strategic offshoring for certain functions, especially as we expand our own international operations. In total, we expect to widen our overall operating margin to approximately 47% for the year on average, and exit the year at an operating margin approximating 50%.

As we discuss efficiency, it is also helpful to provide some further insight into the benefits we will realize from the movement of clearing under the bank. As we have stated, the benefits of this structural change are threefold. First, we get greater capital efficiency. Second, we get a lower cost of funding as we use brokerage cash to replace wholesale borrowings. And third, we lower hedging costs as we optimize the duration characteristics of the brokerage assets and liabilities on a consolidated balance sheet. In 2007, we will continue to make progress towards our long-term goal of creating a balance sheet that on the asset side is funded 70% to 75% with enterprise alone, and on the liability side is funded 70% to 75% with enterprise cash. We believe this is the right balance sheet mix in order to maximize returns with optimal liquidity.

In summary, as we execute on our key initiatives in 2007, we must remain disciplined with respect to the tradeoff between growth and returns, and we will. 2007 will be an exciting year for the Company, and we look forward to delivering another year of exceptional results. With that, I'd like to turn the call over to Rob for more detail on our guidance from a P&L perspective.

Rob Simmons - *E*TRADE Financial Corp. - CFO*

Okay. Thanks, Jarrett. Before I get into the details of our 2007 guidance, I'd like to touch on a few of the underlying assumptions embedded in the ranges of our numbers. First, in the low, mid, and high points of our guidance, we are assuming a 25 basis point cut in Fed funds during the first half of the year. Then in the low end, we are assuming continued inversion of the yield curve, just as we are seeing today, and a slightly weaker equity market environment than we have experienced so far in 2006. At the midpoint, we are assuming a relatively flat yield curve and an equity market environment, as well as retail customer engagements, that are in line with 2006. At the high end, we are assuming moderate yield curve steepening of 10 basis points between the overnight rate and the 10-year treasury, with a modestly stronger equity market and overall retail customer engagement. As a result of these assumptions, it's clear that the growth in our expected ranges for DART, cash, and assets is not predicated on an overly strong market next year, but rather on our ability to continue to attract, migrate, and retain high value accounts. Finally, we are assuming a continued rational pricing environment throughout the industry, while fully expecting continued refinement in competitor pricing structures over time.

In addition to the key driver and P&L ranges we provided in today's press release, we also included a table showing EPS sensitivity for a set of selected drivers to help illustrate the various points of leverage in the model to each of these drivers. As Mitch noted, in 2007 we expect to generate strong top and bottom line growth, outpacing our previously stated goals. We are projecting total net revenue of between $2.75 billion and $3 billion. We are expecting revenue mix between net interest income, commissions, and fees to remain relatively similar to where we have been in 2006. As a result of disciplined growth in the balance sheet, we expect to see continued growth in net interest income in 2007, despite our expectations of a Fed rate cut and an inverted to relatively flat yield curve. This shows the strength of our integrated bank and brokerage model, which is positioned to benefit from improved funding flexibility and duration optimization between our mix of assets and liabilities.

As we grow the balance sheet by connecting with our retail customers through cash and credit products, we will maintain strict discipline with respect to credit quality and interest rate and liquidity risk management. In addition, we built our guidance assuming a tighter net interest spread, which reflects the rate volume analysis that we have previously discussed. We are comfortable with this tradeoff provided that we do so while maintaining our return on invested capital thresholds across the enterprise. We know from past results that as we drive greater engagement with our retail clients, they not only bring additional cash and credit balances, but they also tend to trade more and increase overall asset balances, which drive additional returns across the entire franchise. As we grow the balance sheet and our target customer segment in 2007, we expect to generate a return of 22% on the incremental capital deployed. In so doing, the total Company return on equity will also improve to about 17% from 15% this past year, adjusted for the changes in corporate gains.

On the expense side, we intend to balance our continued financial discipline against thoughtful investment in the future of the franchise. We foresee total operating expenses of just under $1.5 billion to $1.6 billion in 2007. The $150 million delta between the high and low end scenarios is the result of higher volume-related expenses and a targeted increase in marketing spend that is dependent upon both market conditions generally, and the rollout of further international product offerings.

Looking quickly at the advertising and market development line embedded in our guidance is an investment of approximately $30 million in the low end scenario, and $60 million at the high end versus our midpoint spend in 2006. This translates into an advertising and market development spend as a percent of revenue of between 5.4% and 5.9%, up from approximately 5% of revenue in 2006. Given the ad spend efficiency we have seen in 2006, we believe this targeted investment is prudent and will continue to generate strong results at forecasted levels. Certainly the macroeconomic environment and customer responsiveness will play a role in the ultimate level of marketing spend in 2007. Overall, our expense estimates reflect continued reduction in costs as we implement new technologies and pursue further initiatives to drive maximum enterprise efficiency. We also expect to see compensation and benefits down slightly as a percentage of revenue, to between 18% and 19% in 2007, even as we make the incremental investment in service and additional RMs, which Mitch discussed. It's worth noting that offshoring will contribute to part of this reduction, slightly increasing the expense reported in the professional services line item.

At the segment income level, we expect to generate approximately $1.3 billion to $1.4 billion of pretax income. As we increase total net revenue, approximately 75% of the incremental growth in revenue at the midpoint of our range will drop down to segment income. Our continued ability to deliver this high incremental operating margin will drive us toward our goal of 50% operating margin for the whole Company. As we approach the bottom line, there are a few headwinds to be mindful of when comparing 2007 to 2006. Unlike 2006, we are not expecting any below-the-line investment gains from our corporate investment portfolio to offset corporate net interest expense. As a result, we expect non-segment or other income to be an expense of approximately $140 million, or about $0.20 per share on earnings in 2007. In 2007 -- sorry, 2006, we benefited from approximately $70 million, or about $0.10 per share from these gains. A further headwind in comparing to 2006 is our expected tax rate. In the first nine months of 2006, our normalized tax rate has run at about 35.4%. However, certain one-time tax benefits that we recorded in 2006 pushed that rate down further to approximately 33.8% for the nine-month period ended September 30th. Next year, we expect to return to a more normalized tax rate of approximately 37% as we adopt FIN48.

Finally, we are forecasting an average share count of 445 million shares for the full year. This represents an increase over 2006 of approximately 2% as related to several factors, including possible additional dilution associated with our mandatory convertible bonds, shares issued as we continue acquisitions in connection with our regional advisor strategy, as well as share issuances related to equity-based compensation. With these variables and assumptions in mind, we arrive at our forecasted 2007 GAAP EPS range of $1.65 to $1.80. We believe this forecast demonstrates the Company's strong organic revenue and earnings growth capacity. We are excited about the coming year and what it represents as we continue to build a franchise dedicated to building long-term value for both our customers and our shareholders. And with that, we would like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] Rich Repetto, Sandler O'Neill.

Rich Repetto - *Sandler O'Neill - Analyst*

First question comes on the brokerage and clearing, Jarrett did talk about the three benefit areas. But we really didn't quantify it. Are you able to -- did you put anything into the numbers in regards to that? Or is there any sensitivity that we could sort of quantify the -- the -- ?

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

Yes, happy to do it. So we can finally give the answer that everybody has been writing about for about six quarters. When we took a look at -- initially at the benefits associated with putting clearing under the bank, we recognized the three points that Jarrett discussed. And we assumed that if there was a normalized rate environment -- so if you went back to a point in time, where when you looked at Fed funds to the 10 year, saw about a 50 basis point steepening of the yield curve. So we went back and looked over the last 12 or 14 years in a variety of environments, and said that seems to be on average about the normal differential in a rate that occurs in a yield curve environment and a more normalized interest rate environment. So if you were to assume that, and you also got the full benefits associated with the leverage, as well as the cost of funds, it's about $0.14.

Okay. So to be clear, I'll bridge you through it. In '06, we received about $0.02 of benefit out that potential $0.14. That $0.02 came in the form of the duration, but it wasn't associated with the shape of the yield curve. Rather, it was associated with the benefit of being able to lift hedges, because when run an enterprise balance sheet, you move from a bank balance sheet which you're hedging as liability sensitive, to now an enterprise balance sheet which is much more neutral. And so we saw about $0.02 worth of benefit in '06.

As you move into '07, we are beginning to benefit from the leverage for the first time. So now that we're completing the year, we've received all of the final approvals from the regulators, we're in a place that we can start to leverage the bank or the enterprise balance sheet as a result of combining bank and brokerage. At the low end, we see about $0.02 worth of benefit, and that would obviously correspond theoretically to the balance sheet size. At the midpoint we see about $0.03 of benefit. And at the high end we see about $0.04 of benefit associated with the leverage. And an easy way to calculate that would be the normalized rate of growth that we're at, i.e., where we're keeping our typical tier-one capital, what we're going to keep it at going into next year, how much more as a result of capital efficiency we can grow the balance sheet, we don't obviously have to go out and raise those funds in the market at about a 7% cost of fund. And so there's a clear economic benefit associated with that, ranging as I said, from about $0.02 to $0.04.

With respect to the shape of the yield curve, on the low end, you're at about $0.00. In the mid level, you're at about $0.00. And on the high end, you're at about $0.01. And the reason for that -- and it obviously also correlates to the spread guidance we gave. At the low end, we assume a continued inversion in the yield curve, notwithstanding the 25 basis point Fed cut in the first half. At the midpoint as we said, we assume it to be a flat yield curve, so there's no benefit. And at the high end, we are assuming only 10 basis points from Fed funds all the way to 10 years. And you saw, I think, in our points of leverage, every time there is an additional 10 basis points from there, it's worth about a $0.015 And then finally on the cost of funds side, you see somewhere between $0.005 on the low end, about $0.0075 on the midpoint, and $0.01 as a result of replacing wholesale borrowings with the cash which is coming in, associated with the brokerage balance sheet now being integrated under the bank balance sheet. So you can see that in '06 we saw about $0.02 of benefit. In '07 it would range anywhere from about $0.025 of benefit on the low end, to $0.06 on the high end.

And then finally to sort of bridge you to that $0.14, if you looked at the high end, you'd say you got $0.06 of benefit, you already got $0.02, is $0.08, and the final $0.06 comes from going to a normalized yield curve of 50 basis points. So if you now move to 10 basis points between Fed funds and the 10 year, from a 10 basis point shape of the yield curve to a 50 basis point, you'd pick up another 40 basis points. At $0.015 per 10, that would translate to the additional $0.06. . So again, in our mind we wanted to make our own baseline assumptions embedded in our guidance. We did. If it turns out that the yield curve is steeper, then there's upside. But as far as we were concerned, we wanted to be prudent in assuming an inverted curve on the low end, a flat curve at the midpoint, and only 10 basis points of steepness at the high end.

Rich Repetto - *Sandler O'Neill - Analyst*

I get it. It's going to take a little while to digest, but at least we've got numbers.

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

Yes, and people have written about anything from one range to another. And to be fair, when we began this whole process and debated about was it worth going through the process? Was it -- going through all of the regulators that we had to go through, ranging from the OTS to the Fed to the FDIC to NASDAQ to the NYSE, I mean, everybody was involved. And ultimately when we thought this could mean $0.14 in a more normalized environment where you're really receiving all of the full benefits, we decided it made economic sense to pursue it, and we're glad we did.

Rich Repetto - *Sandler O'Neill - Analyst*

Got you. Okay. One other question. Mitch, just on the trading activity. And I think this has to do with sort of the customer segmentation strategy and how effective you are at it. Because if you look at, let's just say, the low end of the DARTs that you have, 170,000 for '07 at the low end. And that's a market -- that's a market environment where it's slightly worse than '06.

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

Yes.

Rich Repetto - *Sandler O'Neill - Analyst*

But you've got slightly incremental higher DARTs. LIke, if I look at my DART estimate, I'm going to be somewhere right around 160,000 for the year. And we're currently at, I think, 165 or something -- .

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

We're 166 as of right now.

Rich Repetto - *Sandler O'Neill - Analyst*

Right. So, I'm assuming this has to do with your targeted segmentation -- .

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

There are two big things, Rich, to be clear. One of them is -- and I think people probably forget this. As we go into '07, we no longer have the headwinds of the economic attrition around DARTs and otherwise associated with Harris and Brown. So when you look at the numbers that we experienced, we had pretty significant, again, economic attrition. It was better than modeled, but it was about 10% for Brown -- I mean Harris, and about 5% for Brown. So each of those will return to much more normalized attrition rates given that -- the high value nature of the customers that we acquired. And so as a result, you don't have that corresponding offset as you're going into '07 from '06.

The other is absolutely the growth in the account. So as you look at -- that's why we made the economic decision to make that incremental investment. So when you -- as we talked about it, when you look at it, service and RMs, plus marketing together aggregates to about an 85 -- at the midpoint, it aggregates to about an $85 million spend. It's about $45 million incremental if you just kept it flat as a percentage of revenue, which is exactly what we talked about in the script, representing about $0.06 of incremental investment. But in the absolute, it's up $85 million. That range -- actually that $45 million incremental goes from a range of about $36 million or $0.05 on the low end, to a high of about $58 million or $0.08 on the high end, in terms of that incremental investment over keeping marketing and RMs flat as a percentage of revenue. So our view is that given what we've seen this year in the growth and targeted accounts, given the acceleration in the growth of targeted accounts that we've seen in Q3 and Q4 as a result of both the marketing and RM strategy, we felt it was prudent to continue to make those investments in order to be able to generate long-term returns.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay. I will limit the questions and follow-up with you afterward. Thank you.

Operator

Matt Snowling, Friedman, Billings.

Matt Snowling - *Friedman, Billings - Analyst*

Just maybe a question on the balance sheet. If I'm doing the math correct, it looks like you're expecting about $12 billion of earning asset growth, at least year-over-year, and a $17 billion increase in client cash balances at the midpoint. And just with the dynamics between the funding mix and some benefit from the cost of funds being lower due to the clearing shift, it just seems a little surprising that you're looking for maybe a 20 basis point lower spread. Is that more of a strategy designed to lead with higher rates to attract customers? Or am I missing something?

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

Well, let me sort of walk you through it. So conceptually, let's start with, as you did, sort of the balance sheet. So you're right. If you look at the balance sheet, one way to look at it is an '06 average will be about $44 billion. Ending looks like it could be in the neighborhood of about $50 billion. So sort of in that range. So if you look at the growth rates, whether it's off of average or ending, at the low end it's somewhere between 22% and 27%. At the high end it's somewhere between 30% and 36%. We intend to improve cash as a percentage of liabilities from about 62% now, or wherever it is, to about 63% at the low end, 67% at the high. And loans from about 64% where we are right now, to about 66% at the low and 70% at the high. So you're right, we're beginning to optimize the mix. And in an ideal world, you would presume that given that, you might see spread widening.

So what we did is, we looked at the business model and said, okay, at the low end, what do we think are the headwinds? We assume that the headwinds coming against us at the low end were the continued inversion of the yield curve, number one. And number two, that you are not changing your pricing strategy in any way. So I assure you that as you look at our pricing strategy across all of our products, we're pretty happy with them, whether it's in the trading, whether it's in assets or cash or credit. So when you look, for example, on the balance sheet, how we price cash and how we price credit, relative to a neutral benchmark like the swap curve, we have no intention of changing it. It will stay pretty consistent. What we are assuming is that as we market to and engage the higher value customers and you give them choices about where they want to put their cash and where they want to put their credit, they're going to make choices to put some of their cash in higher yielding products, and they're going to choose to borrow in some of the lower cost funds.

And as Rob was saying in his comments earlier, the goal for us is to say given what we have experienced in this customer segmentation in '06, and particularly as we've looked at '03 and -- Q3 and Q4, what else are we seeing around their behavior around other asset growth? What are we generating in revenue in the form of other revenue in that line item of the P&L? And also, what are we seeing in terms of trading? I mean, you saw it this month in terms of our metrics that we just released. And even last quarter we saw it where, DARTs were down 18% on average, and up 1% in that category, that subcategory. Our view was, what was the overall incremental return being generated. And so when we looked at the behavior of those customers, we assumed and frankly, you're right, spread could be better. It could be flat. I mean, it isn't necessarily going to come out exactly where we guided. But we made our best estimation as to the products they would pick on balance sheet as we continued to optimize and grow assets as a bigger percentage -- I mean, cash as a bigger percentage of liabilities, and loans as a bigger percentage of assets, and said we'll also see the pick-up in other areas. What's the incremental return. And you can see that next year that incremental return is about 22% on an after-tax basis. So we were willing to do a trade-off for spread compression of anywhere between 10 basis points on the high end and 20 on the low in order to get that 22% incremental return.

Matt Snowling - *Friedman, Billings - Analyst*

Okay. And maybe one quick follow-up. What assumption are you making in terms of the cash contribution from your international customers?

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

We're not breaking it out. But clearly, you're -- embedded in those numbers is, in fact, a pickup in cash contribution, both as we are -- have begun to see more recently and certainly, as you'll see once we launch the bank.

Matt Snowling - *Friedman, Billings - Analyst*

All right. Great.

Operator

William Tanona, Goldman Sachs.

William Tanona - *Goldman Sachs - Analyst*

Just in terms of marketing, obviously you guys are feeling pretty comfortable about the environment and willing to pick up your marketing spend pretty dramatically. Can you kind of give us a sense as to what that additional marketing spend is going to be targeted towards across the globe?

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

It will be predominantly driven this year still domestically as opposed to internationally. There is an -- there is a pickup in marketing spend in international over its current run rate. But when you look at the context of both the overall marketing spend and the incremental spend, it is certainly not meaningful. And [Nick] is going to spend predominantly in areas where we have been successful at targeting the mass affluent. I mean, it is a significant area of focus for us. We believe that we have found ways in which, both online and offline, that we've been able to attract them.

If you look at the overall growth in accounts which is, in my opinion, too slow at 5% or 6% on an annualized basis, but you look at the growth rate at 30% in the target segments, you're getting the growth where you want it. That's in the marketing dollars alone. And then when you look at the investment in service and RMs, you know it helps you. That's the corresponding pickup in continuing to lower attrition and improved migration. And so we view both of them working in tandem in order to help us with a stronger growth rate in accounts overall, and a much stronger growing rate, obviously, to continue to do what we've been doing in that targeted segment.

William Tanona - *Goldman Sachs - Analyst*

That's helpful. And then in terms of the increased marketing spend, and then keeping expenses relatively stable, I mean, you're obviously looking for a significant improvement in operating margins. Where do you think the opportunities are to kind of contain costs or reduce costs considering that you really are trying to build out globally and increasing this marketing spend?

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

Yes, I mean, if you look at -- so first of all, part of it's cheating. I mean, it just is. Because you're in a place where you've got about $0.05 of benefit from Harris and Brown, year-over-year off of your GAAP guidance. So you're in a place where you're beginning to see the full benefit associated with the cost takeout there. When you look at -- you can't actually see all of the other line items. The one thing Rob talked to obviously, was comp and benefits. So driving it from what has traditionally been 20% down to between 18% and 19% is pretty significant. I mean, again, that is our business model. Our goal is to invest in comp and benefits in areas which deal with the customer and service, like service area and RMs. But as you continue to grow revenue, to be able to do it in a way where you don't have to make an additional investment in people, but rather use technology and other parts of the operations of the business. You're getting to a place where you've got operating leverage. Don't forget that right now, your current incremental op margin, currently, on the next dollar of revenue is at 75%. So when you're sitting today at 44, or whatever percent it is that we last reported, and the -- and you're continuing to grow, even without making additional cuts in expenses at 75%, it puts you in a place where you can directionally move to the 50% op margin, which we would hope to exit at the end of Q4 of 2007.

Jarrett Lilien - *E*TRADE Financial Corp. - President & COO*

And just reiterating a little bit, so it's not so much about taking cost out, as it is about not adding cost as we bring more accounts and more revenue in. So again, it's that scalability of the model, it's the operating leverage of the model.

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

Yes. Great.

Operator

Richard Herr, KBW.

Richard Herr - *KBW - Analyst*

Maybe just to follow-up on the previous question about the investments being made. I was just curious. In Q2 '06, or I think you made some investments related to building out relationship managers and enhancing your services platform. Are these the same type of investments? And if so, can you discuss what kind of IRR you saw in those previous investments, and what you're expecting here.

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

Okay. They're not the same. So to be clear, if you remember, I think when we guided originally, we guided about a year ago, in December. And then Q1 turned out to be a very strong quarter across all of the metrics. And so when we actually gave and reported on the results of Q1 of 2006, we said here's precisely what we think we are seeing, and we will continue to see throughout the year. And we believe that we should -- it's prudent to take our guidance up by $0.05. And that was the $0.05 that we took our guidance up for in this past year. We also said we are choosing to make about a $40 million investment, which was about $0.06, because it was about $6 million a penny back in Q1 of this past year. And we knew that that $40 million investment was predominantly going to the call center. So some of it was going into relationship managers, but most of it was going into the call center. And I think we specifically talked about some of the experiences we had had, both in terms of increased volumes and what it meant for the call center, as well as the integration of both Harris and BrownCo. And when you look at the benefits that we have seen this year, again, it takes time. There's a lag effect. But you're clearly seeing them as we've been able to use those investments to reduce average wait time, abandonment, as well as deepen the engagement with our customers and help some of the migration from Main Street to mass affluent.

As we go forward in '07, the predominant amount of the spend in -- of the increased spend associated with what you would consider sales and service, it is around $23 million on the low end of guidance, and about $28 million on the high end of guidance, 25 in the middle of that $45 million that we spoke to. So that really is going more after both relationship managers and the investment service group specialists in our business model, which really directly deals with the mass affluent. So it's doing things like now ensuring we're only currently about 50% of our mass affluent customers are covered with an RM, it will put us in a place where close to 100 are covered with an RM. It's really taking what we've seen work, and continue to scale it in 2007 to be able to deliver the results. And the only thing I would speak to is, I'm pretty satisfied when I look at '07 versus '06, I look at the revenue and assume that we're generating, as I said, an incremental return on capital of about 22% on an after-tax basis, given the increased spend that we're making of about $45 million at the midpoint of our guidance.

Richard Herr - *KBW - Analyst*

Okay. That's very helpful. Thank you very much for that. And maybe just -- I'm sorry. Maybe you touched on this before, but the interest earning assets, the growth there. I mean, I think that's a little bit more than we were expecting. Is it predominantly -- is it predominantly real estate? Is it [first lane], is it HELOC, is it consumer? Maybe a little color there would be helpful.

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

The color would be that the growth rate is driven by both margin balances, as well as mortgage. All we're focusing on. You would see a typical mix in percentages stay about the same. So if you look at the percent that our margin balances bear to the whole now, you'd expect it to stay about the same. And the same would be true on the breakdown between first, seconds, and HELOCs in terms of the growth next year, as well.

Richard Herr - *KBW - Analyst*

Thank you very much.

Operator

Mike Vinciquerra, Raymond James.

Mike Vinciquerra - *Raymond James - Analyst*

Wanted to ask on the ROE and the returns on capital, I guess a little bit lower than some of your major competitors. And I wanted to just ask, even if you take out the incremental marketing spend, what do you think your business model can generate in terms of long-term returns on capital? If you looked out a couple of years, are we going to -- ?

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

20%.

Mike Vinciquerra - *Raymond James - Analyst*

20% is the reasonable number? Okay.

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

And that's what we've been fighting to get to. This year we'll be at about 16. This current year in 2006, if you adjusted for the gains, you'd be about 15. Next year, I think the midpoint of our guidance takes us to about a 17% ROE. And clearly, you would see us as we continue the growth and controlling costs, we would hope to be at about a 20% ROE in short order.

Mike Vinciquerra - *Raymond James - Analyst*

So this year it's kind of -- you're getting the boost from greater leverage, you're getting the negative from your customers choosing better products for them, as well as some of the other things you mentioned.

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

Yes. And don't forget that no matter how you slice it, we're making an investment in international. It's a drag. It has a lower incremental return on capital. It just does for now. As we grow it, as we get the balance sheet and we can start generating significant earnings from international, it will boost the overall return on capital, and it will make a big difference.

Mike Vinciquerra - *Raymond James - Analyst*

Okay. Fair enough. Thank you. And just kind of along those same lines, one thing you guys haven't talked much about is growth in the long-term asset, the retirement asset, things like that, of your clients. And I'm just wondering, that would be certainly something that would increase your return on capital, because you don't really have to hold anything against those assets. Can you talk more about that? Talk about your advisory strategy a little bit more, and where we see that going?

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

Yes. We would assume that in 2007 we continue to do exactly what we've done in 2005 and 2006. We are looking at the growth in our advisor network, both in terms of absolute numbers of people in the current advisors that we own, as well as in growth in some more advisor platforms.

What we have seen so far in terms of the returns there, the out margins, they are all equal to or greater than the targets that we are looking for as a Company across the board, and so we see that as a big opportunity. One of the things you will see us talk about both in Q4, but more importantly, as we go into next year, we will be reporting on our metrics net asset in-flows on a quarterly basis, so you can measure and monitor exactly what we're able to do on a quarterly basis in terms of those results.

Mike Vinciquerra - *Raymond James - Analyst*

Great. That's going to be helpful. Thanks very much.

Operator

Prashant Bhatia, Citigroup.

Prashant Bhatia - *Citigroup - Analyst*

Just real quick on the cash, it looked like, based on the guidance, it's growing roughly $10 billion to $15 billion. I guess looking at cash growth year-to-date, it looks like, pulling out acquisitions, its roughly breakeven, maybe it's under $1 billion. I guess what are you seeing going forward that gets you comfortable you can do 10 times faster than what you've done year-to-date?

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

Well, I don't know the numbers you're using, Prashant, but we've been looking at organic growth rate of about $1.6 billion in Q1, about $400 million in Q2, $1.5 billion in Q3. All of those are totally unrelated to acquisitions.

Prashant Bhatia - *Citigroup - Analyst*

Okay.

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

So, and then we obviously haven't reported on Q4. But I would guess you can gather from the call, we're satisfied with the trend lines we're seeing in Q4 to date. So if you look at all of that, and quite frankly, you assume that you no longer have the attrition. So you have an attrition in those numbers, you're not counting what you picked up in any of those numbers in either of the deals. But you are including the offset of the attrition that came through from Harris and Brown. So between both Harris and Brown through 2006, we lost about $700 million in cash through the attrition rate, as I said, at about 10% for Harrisdirect and about 5% for BrownCo. So if you looked at all of that and added up, I think you would see that you have a growth rate that's probably, on average, at about $1.5 billion or sort of in that range, or $1.6 billion on a quarterly basis for each of Q1, Q2, Q3, and Q4 of '06. As you go into next year, we're assume about 2.25 of growth in cash on the low end on a quarterly basis, and 3.25 on the high end. And again, we would hope that what would drive that would be the kind of engagement that we've seen in Q3 and Q4, as well as the growth in additional accounts through the investment in marketing and RMs, as well as the lack of attrition, or a much more normalized attrition level for Harrisdirect and BrownCo. So I think we feel pretty comfortable.

Prashant Bhatia - *Citigroup - Analyst*

Okay. So the organic growth numbers that you quoted, when you look at just the change in cash balance from, say, December '05 to third quarter, it's a lot less than that. So you're saying -- ?

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

I think you're looking -- I think you're looking at the balance sheets which includes cash at the bank having nothing to do with enterprise cash. All right. So we have to walk you through. That's why we give you a separate enterprise cash number on metrics. The unfortunate -- .

Prashant Bhatia - *Citigroup - Analyst*

Well, that's what I'm using, was $31.6 billion as of 3Q '06, and it was 28.2 as of December '05. And then built in there is $2.7 billion of acquired growth.

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

No, I -- .

Prashant Bhatia - *Citigroup - Analyst*

I'm just taking -- ?

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

No, we did not include the acquired growth in there. The enterprise cash is net of the acquired growth.

Prashant Bhatia - *Citigroup - Analyst*

Okay. So that's why you're seeing it different?

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

That's exactly right. In other words, when we build the enterprise cash number, we net out what we picked up through Harris and Brown. This is only pure organic growth.

Prashant Bhatia - *Citigroup - Analyst*

Okay. And then in terms of the relationship managers, can you just talk about that a little bit more? How much, in terms of customer assets, are these managers assigned? What kind of improvement have you seen maybe in terms of attrition, or just growth in customers that these managers?

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

Happy to do it. So what we have typically seen with an RM versus a non-RM is that the average cash balances are typically about three to four times larger than the size not associated with them. So that's the first thing. The second thing is on the asset size, it's been somewhere between I guess, four to five times a little bit greater associated with the RMs. So the numbers are significantly higher as a result of utilizing RMs. Now, that doesn't mean branches, it just means RMs. So whether it's phone-based in our Alpharetta location, or our New Jersey location, or whether it's in a branch, it seems to be pretty consistent. So there seems to be a relatively significant pickup there. As well, when we started attaching RMs to our customers, we saw a relatively significant decline in attrition rates. By way of example, in our most valuable customers, or what we would define as sort of platinum customers, I think we saw a decline of somewhere about a 4% or 5% normalized attrition rate to about 1.5%.

Prashant Bhatia - *Citigroup - Analyst*

Okay. Great. And then in terms of capital, the capital you generate, do you have a view on maybe debt paydown versus repurchase? Or -- ?

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

Rob?

Rob Simmons - *E*TRADE Financial Corp. - CFO*

Yes. So built into these numbers are not assumed any debt paydown in 2007.

Prashant Bhatia - *Citigroup - Analyst*

Okay. And -- ?

Rob Simmons - *E*TRADE Financial Corp. - CFO*

That the capital we generate will be used -- will be deployed against growth.

Prashant Bhatia - *Citigroup - Analyst*

Okay. And you talked about No below-the-line gains. What should -- what are you thinking, or what's in your numbers for above the line, kind of loan sale gains? Is that similar to -- ?

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

Currently the gain on sales might hold somewhere between I think 5 or 7 to about $15 million a quarter. Somewhere in that range.

Prashant Bhatia - *Citigroup - Analyst*

Okay. Great. Thank you.

Operator

Roger Freeman, Lehman Brothers.

Roger Freeman - *Lehman Brothers - Analyst*

I guess with respect to the operating margins, coming back to that. The low to high range I guess suggests 47, I think you said, for the year. Is there a reason there's no, I guess, leverage within that, as you have, say, higher transaction volumes, et cetera, that you would see some operating leverage falling to the bottom line there?

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

Yes, it's predominantly driven by the continued -- the pickup or the incremental investment. So what you would see, first of all, is it going -- this year it's going from about 42% or 43% to 47%. So we're assuming about a 500 basis point pickup year-over-year in spread -- I mean, in op margin, as a result of the leverage. Then the idea is that we intended to basically manage the expenses because we felt that we could do that. And if we were, as I've said before, generating higher revenue, we would take up somewhat the incremental investment. I think what would happen is you would see about 1% or 1.5% pickup in your op margin, to the extent that you didn't low to high, that you didn't make the incremental investment in the marketing in the service.

Roger Freeman - *Lehman Brothers - Analyst*

Got it. Okay. That makes sense. And I guess longer term on margin. So you're -- I think if I heard you right, you're suggesting you'll end the year -- the run rate at the end of the year would be around 50%, which -- ?

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

Yes, we would hope to execute for it about 50%. That's right.

Roger Freeman - *Lehman Brothers - Analyst*

Right. And so that's -- and 50% is also I think what you've been driving to. So at that point then, how do you -- how do you think -- and particularly with an incremental margin of I guess north of 70%, what do you think is the longer term margin potential of the business -- ?

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

You know what, let's address that one on the next December call.

Roger Freeman - *Lehman Brothers - Analyst*

Okay. All right. And then -- then I guess -- oh, within the target group, you mentioned -- did you say that you see 30% growth in accounts or assets in that group?

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

In accounts.

Roger Freeman - *Lehman Brothers - Analyst*

In accounts. Okay. And I guess -- have you talked about, or can you talk about how big that population of accounts is inside of -- relative to your current account base?

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

We have not talked about it. We have not released specifically the percentage of our total that it bears.

Roger Freeman - *Lehman Brothers - Analyst*

But it's got to be a pretty small amount, given that we really aren't seeing the needle move at all on overall account growth. Or is it just masked still because of some of the attrition?

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

I think a lot of it was masked because of the attrition. And you are seeing the needle when you look at the absolute numbers like assets per account, revenue per account. All of the key metrics are up 50%, 70% over the past couple of years. But even in the last year, they were up pretty significantly. So the idea is, as you have migrated to a more valuable customer, you are seeing it. So it is a reasonable percentage of the total, and we are growing it at about 30%. And so I guess you will begin to see, to your point, a lot more of it as the attrition levels normalize as a result of not having Harrisdirect and BrownCo in there.

Roger Freeman - *Lehman Brothers - Analyst*

And where are you currently with attrition levels on both of those?

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

We literally -- I can't even remember, two quarters ago stopped looking. We've now integrated them into our base, and we just now look at the run rate for the overall base of the E*TRADE customers.

Roger Freeman - *Lehman Brothers - Analyst*

Okay. And then just lastly, on pricing obviously, you said that your outlook assumes rational pricing. And just to that point, there's been some market chatter around Bank of America potentially dropping the minimum balance requirements in 2007. How does that change your thoughts with respect to your value proposition?

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

It doesn't one iota. So in other words, the good news is, I went back to look at this just to confirm. The Bank of America offering is I guess, about two months old now, something like that. And we have seen no impact whatsoever. None. And I guess we're not the only ones. The chatter I'm sort of hearing to your point is, from the -- some of our direct competitors, whether it's Fidelity or Schwab or TD AMERITRADE, is they're also not seeing any impact. So again, we said pretty much right out of the gate, that we intended to have no move in our pricing, certainly around trading. It obviously has not impacted our metrics since they have continued to be pretty strong. So we really haven't seen any impact whatsoever.

And even when you look at the deposit pricing, what would concern me, is if the Bank of America woke up tomorrow and wanted to offer the same deposit pricing strategy that we currently offer. Because ultimately, their goal and their interest is to bring in a customer with a deposit balance and a low cost of funds. Because that's what's valuable to them. And they have to generate a return for their shareholders. And so, as long as they continue to try to make money off of their deposit base based on a lower cost of funds, and we can differentiate, what's interesting to us and about our model and what I'm pleased about is in the early days of '89 and '90, and all the way to almost 2000 when it was Telebank, we had to price in the top 1%. Now, today, when you look at deposit pricing, we're probably in the top 20% to 25%, versus the brick and mortar institutions, who are sort of in the 40% to 50% range. So we're at a place where we are competitively positioned enough that it makes it very difficult for brick and mortar, with their cost infrastructure, to change their pricing strategy. And the fact that they're really offering free trades at $25,000 or $10,000 or $5,000, or anything in average balance, I suspect that if they are making headway at all, which they claim they are, they're making it against other banks where people are saying, if I get paid 60 or 70 basis points at this bank versus at B of A, it doesn't matter to me. And if somebody's willing to throw in a few free trades, I might be interested.

Jarrett Lilien - *E*TRADE Financial Corp. - President & COO*

And piling on to that one a little bit, people are not -- the active traders are not not going there because of the cash requirement. They're not going there because of the quality of the product, the quality of the platform, and the fear of the impact on execution quality. And again, if you're an active trader, even at E*TRADE, you're already as low as $6.99 to $9.99. If -- the example I always use, is if you're executing thousand-share trades, and you go there to save $6.99, but the execution quality is $0.01 off, you just saved $6.99 at an expense of $10. And that is the way that the people who care about trading are thinking. That the quality and the price of a trade, just like you do on the institutional side, it's not just the commission. It's the commission, it's the execution and quality, it's the whole thing bundled together. So people who would be interested in it, they don't care about the cash requirement. They care about the quality of the platform and the quality of the execution.

Roger Freeman - *Lehman Brothers - Analyst*

Got it. Thanks for the insight.

Operator

Matthew Fischer, Prudential.

Matthew Fischer - *Prudential - Analyst*

I guess most of it's been covered. But in terms of the UK bank license, can you tell me, or give some guidance into how much, if any, is built into your guidance? And what's kind of the time line with that?

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

We have built a -- I would say at the low end, we have probably built virtually nothing. And at the high end, it's been pretty moderate. We've assumed obviously some cash benefit. We intend to do some offerings, even independent of getting the banking license, which we think can help us grow cash from an international perspective. And then, in terms of it helping, obviously, it will be a net positive to spread as we go forward, because of the opportunities internationally. But we would -- we are presuming sort of low, medium to high, no impact to a moderate -- very moderate impact. Now, to the extent that we obviously get the license sooner and it's up and running, I think we'll be quite pleased.

Matthew Fischer - *Prudential - Analyst*

And what are you thinking in terms of when you're going to get the licenses, now or -- ?

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

I think we are hoping that we will get it in 2007. We haven't been that specific about it. But the goal would be, obviously in our current guidance, that it's more of a 2008 event. To the extent that we get it sooner in 2007, we'll come back and revisit it.

Matthew Fischer - *Prudential - Analyst*

Okay. And then, back to I guess the relationship managers. How much excess capacity do you have now with your existing RMs, and how quickly do you need to ramp that up?

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

Right now, I mean, it depends how you want to define it, right? So the truth is, that as I think Jarrett was saying and we've been talking about, we have covered about 50% of those people that we want to cover. And with relationship managers right now, in terms of the asset level that we're interested in, they are busy. They're really busy. And you're seeing it in terms of some of the metrics and the numbers that we're generating. And so our view was, A, could there be excess capacity based on volumes that are happening in the industry? Sure. But if our strategy was to continue to grow assets and cash, as well as corresponding trades and credit, the only way to do that was to reach out to more of our existing customers with RMs, as well as making RMs available to the new, organic growth of customers that we were bringing in through the marketing spend. And so we would anticipate beginning to spend in both marketing and RMs in Q1 of this -- of 2007.

Matthew Fischer - *Prudential - Analyst*

Okay. And you think a level spending throughout the year, or -- ?

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

I think the RMs will probably be more of a level spend throughout the year, and marketing will end up being somewhat front loaded in Q1, as it always is.

Matthew Fischer - *Prudential - Analyst*

Okay. Great. Thank you very much.

Operator

[OPERATOR INSTRUCTIONS] Richard Herr, KBW.

Richard Herr - *KBW - Analyst*

Thanks for taking my follow-up.

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

No problem.

Richard Herr - *KBW - Analyst*

Just a really brief question. And Mitch, I think you and I have maybe touched on this in the past. But in your guidance, is there any assumptions on any of the potential benefits of passing the portfolio margining as it relates to equities trading, in your earnings numbers?

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

There are a whole bunch of rule changes out there. There are some rules changes, I think you're referring to, on margin. There are some rule changes around margin and options. There's some market changes with decimals coming in options. There's changes in market structure between New York, and so on. Many people theorize that there are benefits to volumes in all of these. We have not -- .

Rob Simmons - *E*TRADE Financial Corp. - CFO*

Not, yes.

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

-- factored any of that optimism into our numbers.

Rob Simmons - *E*TRADE Financial Corp. - CFO*

Yes.

Richard Herr - *KBW - Analyst*

Okay. Thank you very much.

Operator

Thank you. That concludes the time allowed for today's call. I will now turn the call back over to Mr. Caplan for any closing remarks.

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

Thanks very much, everybody, for joining us. And we will speak to you with the end of the year results.