



PUBLIC DISCLOSURE

October 21, 2019

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

E*TRADE Bank
Charter Number: 705848

Ballston Tower
671 North Glebe Road
Arlington, VA 22203

Office of the Comptroller of the Currency

Assistant Deputy Comptroller – Midsize Bank Supervision
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NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Overall CRA Rating

Institution's CRA Rating: This institution is rated Outstanding.

The major factors that support this rating include:

- The institution demonstrates a high level of qualified investment activity and CD services.
- The institution demonstrates occasional use of innovative or complex qualified investments and CD services.
- The institution exhibits excellent responsiveness to CD needs in its assessment area.

Description of Institution

E*TRADE Bank (ETB or bank) is a \$50.4 billion financial institution headquartered in Arlington, Virginia. ETB is a subsidiary of E*TRADE Financial Corporation (ETFC), a financial services company that provides online investment products and brokerage services to primarily individual retail investors.

ETFC was founded in 1982 and became a publicly owned company in 1996. ETFC has seven operating subsidiaries: ETB; E*TRADE Securities, LLC, a registered broker-dealer; E*TRADE Community Development Corporation, which conducts CRA investment activities; E*TRADE Savings Bank, a federally chartered savings bank and subsidiary of ETB; E*TRADE Financial Corporate Services, a provider of software and services for managing equity compensation plans; E*TRADE Futures, LL, a registered non-clearing Futures Commission Merchant; and E*TRADE Capital Management, LLC, which provides investment advisory services.

ETB does not operate as a traditional bank and does not originate loans. ETB closed its only retail branch location in December 2016 and operates under a branchless business strategy. Deposits are only accepted through the mail or online. ETB offers a suite of brokerage, investing, and related banking products that are available only to E*TRADE brokerage customers. Retail banking products are offered online and include checking and savings accounts, online bill pay, and mobile banking.

ETB exited the mortgage lending business in July 2011 and did not originate any small business, small farm, consumer, or community development loans during the evaluation period. Lending activity is limited to loan modifications on the existing legacy portfolio of mortgage, home equity, and consumer products that were originated prior to 2011.

There are no known legal, financial, or other factors impeding the bank's ability to help meet the needs of its AAs. The bank received an Outstanding rating in its previous CRA evaluation, dated December 31, 2014.

Table 1: Financial Information (000s)

	Year-end 2015	Year-end 2016	Year-end 2017	Year-End 2018	Average for Evaluation Period
Tier 1 Capital	3,074,853	3,132,213	3,619,132	3,484,616	3,327,704
Total Income	604,683	886,996	1,117,563	1,422,888	1,008,033
Net Operating Income	86,069	398,675	360,261	541,980	346,746
Total Assets	33,359,802	35,772,782	48,838,799	50,410,469	42,095,463

Source: Consolidated Report of Condition and Income and bank reported data. **Annualized data reported.

Scope of the Examination

Evaluation Period/Products Evaluated

In evaluating ETB's performance under the CRA, we reviewed CD activities from January 1, 2015, through December 31, 2018. We reviewed the level and nature of qualified investments and CD services. At the prior examination dated December 31, 2014, we rated the bank Outstanding.

For purposes of this evaluation, bank delineated assessment areas located within the same metropolitan statistical area (MSA), multistate metropolitan statistical area (MMSA), or combined statistical area (CSA) are combined and evaluated as a single assessment area. Similarly, bank delineated non-MSA assessment areas within the same state are combined and evaluated as a single area.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Multistate Metropolitan Statistical Area Rating

Washington-Arlington-Alexandria, DC-VA-MD-WV MMSA (Washington MMSA)

CRA Rating for the Washington MMSA: Outstanding

The major factors that support this rating include:

- ETB demonstrates a high level of qualified investment and CD service activity in the Washington MMSA particularly investments that are not routinely provided by private investors.
- ETB demonstrates occasional use of innovative or complex qualified investments and CD services in the Washington MMSA. ETB exhibits excellent responsiveness to CD needs in the Washington MMSA.

Description of Washington MMSA

ETB has delineated two AAs, the Washington-Arlington-Alexandria, MD 47894 and the Silver Springs-Frederick-Rockville, MD 43524. Both reside within the greater Washington-Arlington-Alexandria, DC-VA-MD-WV MMSA 47900. MD 47894 consists of the District of Columbia and the counties of Arlington, Calvert, Charles, Clarke, Culpeper, Fairfax, Fauquier, Jefferson, Loudon, Prince George's, Prince William, Rappahannock, Spotsylvania, Stafford, and Warren, and the cities of Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas, and Manassas Park. MD 43524 consists of the counties of Frederick and Montgomery. The AA consists of both urban and suburban areas, meets legal requirements, and does not arbitrarily exclude any low- or moderate-income geographies.

For the purposes of this evaluation, the two AAs are combined, analyzed, and presented as one AA, the Washington-Arlington-Alexandria MMSA 47900.

The AA consists of 1,358 geographies with a population of 1,302,884. Of the 1,358 geographies, 122 geographies or nine percent are classified as low-income, 338 geographies or 24.9 percent are classified as moderate-income, 482 geographies or 35.5 percent are classified as middle-income, 404 geographies or 29.8 percent are classified as upper-income, and 12 geographies or 0.9 percent have not been assigned an income classification.

The economy in the Washington MMSA is largely driven by the federal government, defense, and high technology. The area is characterized by a high per capita income and a highly educated workforce, as well as an above average cost of living and high business and regulatory costs. Currently, top employers in the region include the U. S. Navy and related services, MedStar Health, Marriott International, Inova Health System, SAIC Inc., and Booz Allen. The new development of Amazon's additional headquarters will energize the technology sector, boosting employment in the industry with 20,000 new high-wage jobs. In addition, the growth in jobs will generate spillover in retail and related services, healthcare, leisure/hospitality, and new housing-related and office space construction.

The economy in Frederick and Montgomery Counties, is largely driven by high technology and the federal government. Key industries include biotech, pharmaceuticals, and medical research. Similar to the Washington MSA this area has a high per capita income and highly educated workforce, but lower business costs. The economy stumbled a bit in 2018 due to the exodus of Discovery Communications

and additional layoffs in the federal government, information and consumer-reliant industries such as retail, hospitality, and construction. The home equity market has not fully recovered, but residential building has picked up in the past year due to strength in multifamily construction.

Table 2: Washington Multistate Metropolitan Statistical Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	1,358	9%	24.9%	35.5%	29.8%
Families	1,324,014	21.2%	17.6%	21.3%	40%
Businesses	509,912	4.1%	20.2%	35.8%	39.4%

Source: Demographic Data - 2015 American Community Survey, Dun & Bradstreet Data. *Represents families by income level. **Represents businesses by income level of census tract. Do not add to 100% due to rounding, 12 Census Tracts are not income categorized.

Five community contacts conducted in the AA were reviewed as part of this performance evaluation. Contacts included a community development financial institution focused on small business, two economic development organizations, a social services provider, and a housing counseling services agency. Several primary needs were identified for the Washington MMSA including affordable rental and permanent housing, access to transportation, career development, job training programs for youth, financial literacy, affordable medical and healthcare services, and access to credit and responsible small dollar credit products for small businesses.

ETB hosts a needs assessment in Arlington, VA to facilitate an open dialogue to address the community development needs of the region. Approximately 130 CD organizations have attended annually. Attending organizations represented affordable housing, local government, housing counseling, financial literacy, economic development, and the health and human services organizations. Topics for discussion have included suburban poverty, community partnerships, inequality, and the future of technology.

Conclusions About Performance

Summary

Overall, ETB’s CRA performance is Outstanding.

ETB has an excellent level of qualified investments, particularly those not provided by private investors, often in a leadership position. CD investment activity for the current evaluation period was 19.5 percent of average tier 1 capital. ETB exhibits excellent responsiveness to community development needs through hosting the annual community needs assessments. Specifically, creating a program to invest in the technological infrastructure of local CD organizations. This investment is recognized as innovative and highly impactful to the area.

ETB provides a relatively high level of CD services. CD services were effective and responsive in addressing community needs.

Qualified Investments

During the evaluation period, ETB made 260 investments and grants totaling \$505.8 million. Current period investments include 227 grants and donations totaling \$16.2 million, 13 investments in mortgage-backed securities (MBS) totaling \$365.3 million, and 20 other investments in low-income housing tax

credits (LIHTC) and small business investment corporations (SBIC) totaling \$124.3 million. Prior period investments consist of 10 MBSs totaling \$112.2 million. ETB has \$56.6 million in binding, unfunded, qualified investment commitments that primarily consist of SBIC investments.

Total investments including prior period are \$701.9 million and represent 20.1 percent of tier 1 capital as of December 31, 2018. The majority of the bank’s current and prior period investments focused on providing affordable housing, which is an identified need in the AA. Grants and donations were made to organizations that provide affordable housing, financial education, promoted economic development, revitalized and stabilized LMI census tracts, and other community service needs for LMI individuals and families.

Table 3b: Qualified Investment Activity (000s)

	Benefits AA**
Originated Investments	543,489
Originated Grants	16,239
Prior-Period Investments that Remain Outstanding	142,130
Total Qualified Investments	701,858
Unfunded Commitments*	5,448

* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system. ** Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA.

Table 4b: Qualified Investment Percentages

	Benefits AA (%)*
Total Investments/Average Tier 1 Capital	21.1%
Total Investments/Average Total Income	69.6%

* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area

Examples of qualified CD investment activity include:

- ETB partnered with a nonprofit organization technology provider to help support the infrastructure and technology development of other nonprofit organization ETB grantees. ETB granted \$800 thousand to the program during the evaluation period and has sponsored over 47 Washington area nonprofit organizations to undergo technology rehabilitation and consulting to help support their infrastructures that are critical to ongoing operations. The grantees in the program provide critical CD services to LMI individuals in the AA.
 - This innovative program was initially piloted in 2015 in response to feedback from a community needs assessment. Services offered to the nonprofit organizations include: data needs assessment and support, workstation and hardware upgrades, installation of enterprise level security software, Office 365 Mail and SharePoint migration, database consulting, and security consulting. This investment is considered both innovative and highly impactful to the AA.
- ETB has invested \$13 million in a SBIC that helped support job creation and retention. ETB’s investments funded 49 eligible SBA loans that helped to create and retain an estimated 768 jobs in the Washington AA.

- ETB invested in \$183.2 million in 13 syndicated LIHTCs funds during the evaluation period. The investments supported 3,237 individual LIHTC units through allocated projects within the bank's AA. All of the funds directly benefited the AA. LIHTC investments often involved complex investment structures and multiple stakeholders.

CD Services

ETB provides a relatively high level of CD services. CD services were effective and responsive in addressing community needs. ETB conducted or supported a significant number of CD services, consistent with its capacity and expertise to conduct specific activities. During the evaluation period, ETB employees provided over 3,460 hours of service to CD organizations that benefit LMI individuals and families in the AA. ETB partnered with local organizations that provide affordable housing, community services, and revitalization and stabilization in the AA.

Examples of qualified CD service activity include:

- ETB partnered with local nonprofit organizations to provide financial literacy classes targeted to youth in the Washington MMSA. ETB employees provided over 2,314 hours of financial education to more than 2000 LMI elementary and middle school students during the evaluation period.
- ETB employees hold several leadership positions on the Board of Directors of local nonprofit organizations that support affordable housing, community services to LMI individuals and families, and economic development. During the evaluation period, ETB employees provided 1,004 board service hours.

Appendix A: Summary of MMSA and State Ratings

RATINGS	E*TRADE Bank
Overall Bank:	Overall Bank Rating
E*TRADE Bank	Outstanding
State/MMSA Name	State/MMSA Rating
Washington MMSA	Outstanding

Appendix B: Definitions and Common Abbreviations

The following terms and abbreviations may be used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder’ and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

Full-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under §1003.2 of this title, and that is not an excluded transaction under §1003.3(c)(1) through (10) and (13) of this title.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income Individual: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

Median Family Income (MFI): The median income determined by the U. S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose CD.

Rating Area: A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or are classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.