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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

Commission file number 000-25621

E-LOAN, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware	**77-0460084**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

6230 Stoneridge Mall Road
Pleasanton, California 94588
(Address of Principal Executive Offices including Zip Code)

(925) 847-6200
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, $0.001 PAR VALUE
(Title of Class)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

Aggregate market value of Common Stock held by non-affiliates based on the closing price of the registrant's Common Stock on the Nasdaq National Stock Market on June 30, 2004: $127,048,476. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by executive officers and directors of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliates is not necessarily conclusive for this or any other purpose.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on June 15, 2005 are incorporated by reference hereof.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL BACKGROUND

E-LOAN, Inc. was incorporated on August 26, 1996 and began marketing its services in June 1997. We are an online provider of loans directly to consumers, offering borrowers a variety of purchase and refinance mortgage loans ("mortgage loans"), home equity loans and home equity lines of credit ("home equity loans") and auto loans to suit their financial needs. Our purpose is to make the entire loan process not only more affordable but actually enjoyable.

We originate loans through our website and by telephone, fund the loans using warehouse and other lines of credit, and then sell the closed loans. A warehouse credit facility is an asset-backed financing vehicle for the interim financing of mortgage and home equity loans. The facility is fully collateralized by the underlying mortgage and home equity loans. A revolving line of credit facility secured by the underlying auto assets is used to fund our auto loans. At the time of funding of a borrower's loan, the credit facility advances 92%-100% of the loan amount (depending on the type of loan), and we self-fund the remainder of the loan amount. The amount borrowed under the credit facility remains outstanding until the borrower's loan is sold. Upon the sale of the loan, the funds from the sale are used to repay the advance on the credit facility, any excess funds represent the repayment of our self funded portion of the loan, plus gain on the sale of the loan.

Our principal sources of income are gains from the origination and sale of mortgage, home equity, and auto loans and interest income earned on loans during the period that they are held pending sale. All loans are underwritten pursuant to standards we establish to satisfy the underwriting criteria of the ultimate purchasers of the loans.

Product diversification. We offer a variety of loan products in order to satisfy the various lending needs of our customers. Offering multiple products provides us the opportunity to manage resources to control expenses among our products to take advantage of seasonal and cyclical lending opportunities as the mix of business changes in response to interest rate and economic conditions. This product diversification strategy also helps reduce our earnings volatility and provide more stability through a range of economic cycles. When interest rates are low, consumers refinance higher interest rate home and auto loans in order to lower their overall borrowing costs. When interest rates are higher, consumers still have the need to borrow and are concerned about finding the best loan – perhaps a home equity line of credit - to meet their needs for such uses as home improvement or paying for college education.

Low Cost Producer Strategy. Our business model starts with a focus on reducing the expenses required to originate and sell a loan. This low cost position enables us to offer consumers great rates. Highly satisfied customers will help drive overall consumer adoption and thus expand our overall share of the lending market. Increased market share will drive economies of scale that should further help lower our costs to originate and sell loans.

Loan Distribution. Our focus is on transforming the traditional distribution process of loans from the highly efficient capital markets, where loan products are created, all the way to consumers. The traditional distribution process is often inefficient, confusing, costly, and mistrusted by consumers. Our goal is to take advantage of the opportunities provided by the online channel to eliminate existing conflicts of interest, increase the overall efficiency and ease of the loan process, and greatly improve transparency and control in the process for the consumer. We believe this focus will promote trust in our services by consumers and differentiate us from traditional lenders over time

INDUSTRY BACKGROUND

Shortcomings of the Traditional Consumer Debt Market

Consumers seeking financing for homes, cars or other purchases often encounter obstacles in obtaining rate quotes, unbiased advice, thorough comparisons of loan products, and timely credit decisions. Traditional loan sales people often participate in earnings through compensation plans based on their ability to sell consumers a loan product with higher fees and interest rates. As a result, consumers of similar credit quality often receive very different rates based on their ability to negotiate. There are many intermediaries in the distribution process, which creates confusion and time delays for consumers.

Traditional Mortgage and Home Equity Lending. While increased competition in the mortgage industry over the past decade has resulted in tremendous innovation in the mortgage loan choices available to consumers, the level of complexity associated with these loans has also increased. Furthermore, the underwriting and lending processes remain paper-based and time-intensive, and the consumer is provided with scant visibility into these processes. As a result, we believe that the traditional mortgage lending process causes many consumers to feel:

- Uncertain that their single source lenders and brokers are providing unbiased advice and are recommending the most suitable loan products

- Skeptical that rates initially quoted will ultimately be available

- Intimidated by the number and variety of loan products available

- Pressured to commit to a particular product before they have researched and compared products to their satisfaction

- Frustrated with the amount and types of fees they are required to pay

- Overwhelmed by the substantial time and effort that it takes to get a mortgage loan

Many borrowers receive little ongoing assistance in managing their debt after the loan is closed. Many direct lenders who also engage in mortgage servicing are not committed to proactive monitoring of their customers' loans because they risk losing servicing fees if customers refinance with other lenders. Multi-lender brokers have an incentive to pursue refinancing opportunities, but typically lack the technological capability to proactively monitor the market changes of thousands of loan products in real time.

Traditional Auto Financing. With auto financing, consumers (prior to the increase in the popularity of the Internet) had relied largely upon local auto dealerships to provide financing. This is due in part to the difficulty in obtaining loan information from a variety of national lenders for comparison. Traditionally, dealers have bundled financing with the sale of the car, and as a result, dealers can manipulate the terms of the financing package to compensate for any price concessions the buyer may negotiate for the vehicle. The elements of the loan, such as payment, term, and interest rate may not be easily understood and transparent to the buyer. As a result, the loan terms can vary by individual and by which automobile is being purchased, instead of being based solely on the credit quality of the individual.

Market opportunity

The consumer debt market is substantial and highly fragmented among many lenders. The evolution of Internet usage and the lending industry's adoption of electronic solutions to traditionally paper based processes provide a significant growth opportunity within this market.

Consumer Debt Market. According to industry sources, the 2004 U.S. consumer debt market for mortgage and home equity products totaled approximately $3.3 trillion in originations, which is comprised of approximately $2.9 trillion in mortgage loans (approximately $1.3 trillion of which were refinance transactions) and approximately $430 billion in home equity loans. The average mortgage market totaled a significant $2.8 trillion in annual loan originations over the past four years (2001-2004). We are not aware of similar market size information published for the auto loan market.

A study conducted by Jupiter Research [January 2004] projects total online mortgage originations will grow from 2.8 percent in 2003 to 7 percent in 2008 of the total U.S. mortgage originations. Jupiter also forecasts that online purchase mortgage originations are expected to grow from 1.3 percent in 2002 to 5.7 percent in 2008 of the total U.S. purchase mortgage originations. And Jupiter forecasts that online refinance mortgage originations will grow from 2.9 percent in 2002 to 9.8 percent in 2008 of the total U.S. refinance mortgage originations. In a separate study Jupiter forecasted that internet generated auto loans would exceed 2% of all auto loan originations in 2007.

Loan products are ideally suited for fulfillment over the Internet. These products are often complex, requiring extensive consumer research to find the right product and provider, and they do not require the consumer, loan provider, or product to be in physical proximity. Loans – as opposed to other products marketed online, such as computers - have the potential to evolve into a completely electronic product. The Internet gives consumers informational links and graphical interfaces for comparing competing loan products and efficiently completing their loan transaction.

PRODUCTS AND SERVICES

The E-LOAN Solution

E-LOAN makes the loan process more affordable by using the technology of the Internet to find the right loan for each consumer. We streamline every aspect of the loan application and approval process to pass cost savings on to consumers. We eliminate commissioned intermediaries such as mortgage brokers and auto dealer finance salespeople. We eliminate most traditional lender fees such as administration, commitment, processing, underwriting, and document preparation. Our website is designed to offer prospective borrowers easy access to rate quotes, information about loan fulfillment, and a variety of interactive tools and services to help them understand their options and make the best choices for their personal situations. At our website, borrowers can:

- Apply for loans online
- Quickly search a database of loan products and compare loans along many characteristics
- Determine their credit score
- Use a calculator to determine the size of the loan for which they may qualify
- Access tools such as debt consolidation calculators and a loan advisor query that helps them pick the loan that best fits their entire portfolio needs
- Receive a credit decision in a very short time
- Obtain a mortgage loan pre-approval letter
- Set up rate watch and monitoring accounts so that they can receive automatic notification of favorable rate changes
- Track their loan applications online through our unique E-Track service that monitors every stage of their loan application in real time

Given the range of consumer loan products and the difficulties consumers face in accessing and evaluating a variety of loan options, we believe we have a substantial opportunity to market loan products online in a convenient, cost-effective way and to build a leading national brand name in consumer lending.

E-LOAN Innovations

We continuously look for ways to break down barriers and eliminate redundant steps to make the loan process significantly faster, easier and far less expensive for both consumers and ourselves. Where technology and automation make sense, we use it. Where a person can make a distinct difference, such as consulting with a customer, our team members provide advice.

Some of the important innovations that we have introduced to date are:

Analytical Loan Recommendations. We provide borrowers with recommendations regarding available loan products through our Loan Advisor tool. We formulate our recommendations by using powerful comparative and analytical tools designed to assist the borrower in determining which of our products is the most suitable for their needs. These recommendations are based on borrower-provided information and criteria.

Ongoing Mortgage Monitoring. We enable customers, at their request, to obtain information in order to make refinance decisions by continuously comparing their existing loan to new or existing products available through E-LOAN. Those with whom we have a previous relationship and/or have opted to receive current mortgage information are notified about opportunities to save money or restructure their payment schedules over the life of their loan. Our monitoring algorithm takes into account the borrower's investment objectives, prospective hold period, risk profile and marginal tax rates. This capability promotes long-term relationships with our customers.

Proprietary Underwriting System. A mortgage and home equity loan application is immediately passed through an automated series of credit filters. If the loan application is credit qualified, it is immediately passed through our proprietary underwriting engine. Within approximately two minutes of customer submission -- and without any human effort or underwriting charges except for the cost of a credit report -- the loan is automatically underwritten and an email response is sent to the customer. At the same time, the output of our underwriting engine is passed on in an easy to read electronic format to a loan consultant for rapid follow up with the customer.

Rapid Contact. A key to providing excellent service in the online lending environment is to quickly respond to customers. This assures consumers that there are knowledgeable people available to assist them through the process. We have created a Rapid Contact technology that integrates across our various systems to enable that crucial timely contact to take place.

E-Track. We have developed a proprietary online tracking system, E-Track, in order to make the loan application process more open and convenient for consumers. We establish an E-Track account for each customer at the time an application is completed online. Each E-Track account is personalized and password-protected. The E-Track system contains important information pertaining to the loan, such as documentation requirements and deadlines. All of this information is updated in real time as the loan application is processed. In addition to the E-Track system, our customer service representatives provide as much personal contact and information as the consumer desires.

Online Documents and Disclosures. The disclosures that are required by various federal and state laws and regulations are accepted in electronic form by a majority of our mortgage, home equity and auto loan customers, eliminating shipping and handling costs and enabling fast and easily navigable access using the customer's E-Track account.

Third Party Electronic Data Exchanges. Much of the information flow in mortgage loan processing involves the interplay of the lender and third party service providers. In both the mortgage and home equity operations, we have automated almost every third party communication for loans including appraisal, title, and flood certification, both for the delivery of orders and the receipt of information. Automating these communications increases our efficiency, reduces our cycle time and eliminates data errors as redundant data entry is eliminated. We have also created a process we call Flash Funding, which we use for a majority of our mortgage loan sales. Using this process, all of the information we have on the loan is sent across a secure electronic bridge to the loan purchaser, where it is automatically loaded into their servicing system, eliminating almost all of the manual effort required by the loan purchaser. A handful of the key customer signed documents are mailed to the loan purchaser, and the remainder of the loan file is immediately sent to storage. We receive the loan purchaser’s electronic acknowledgment and payment for the loan in days, not weeks, enabling us to better manage interest rate spreads, hedge costs, and working capital.

Business Development

The following are key areas of focus to further develop our business:

Expanding Capital Markets Development and Consumer Debt Offerings. We believe that one of our greatest competitive advantages is our ability to satisfy customers' specific borrowing requirements by offering a comprehensive selection of consumer debt products available online nationwide. We will continue to seek ways to increase the breadth of our capital market sources in order to expand the number and variety of product choices available to consumers while also improving our pricing flexibility.

Automating the Lending Process Comprehensively. We intend to further streamline and automate our processes in order to eliminate the inefficiencies and unnecessary steps that separate the origination and underwriting processes from the capital markets. By continually incorporating and upgrading automated underwriting techniques and technologies, we believe we will efficiently match borrowers with the loan best tailored to their needs, resulting in faster approval, lower pricing and reduced documentation. We are also positioned to take advantage of the trend to adopt automated property valuation modeling versus traditional appraisals as well as electronic signatures versus the traditional paper based process.

Helping Consumers Monitor and Manage Their Debt. We recognize that consumers can lower their overall cost of capital by managing their loans as a portfolio, much as they manage their assets. We intend to provide tools and services to help our consumers create and manage these debt portfolios through personalized accounts within our online environment. We believe that our role in providing these tools and services will help us form and maintain strong, ongoing relationships with borrowers that will prompt them to use us to fulfill their future borrowing needs.

Our debt management services currently include The Loan Advisor that provides analytical recommendations for the best loan product to suit the borrower's needs and circumstances, and Mortgage Monitor that provides customers with assistance in mortgage loan origination and refinancing decisions through active loan monitoring and rate alerts. We intend to further develop tools that help our customers identify optimal financing opportunities available through E-LOAN for all of their debt types in order to lower their overall cost of capital.

Mortgage and Home Equity Loan Operations

Overview. As a direct-to-consumer lender we originate, underwrite and fund a variety of mortgage and home equity loan products to suit the needs of our borrowers. Originations are funded through our warehouse lines of credit. Our loan originations are predominantly prime credit quality loans secured by single-family residences. All loans are underwritten pursuant to either general or investor specific standards that we establish to satisfy the criteria of the ultimate purchasers of the loans. We engage in hedging activities to minimize interest rate risk during the time between rate-lock with our customer and sale of the loan.

Obtaining a Loan. The loan origination process begins when the customer completes a loan application, typically online through our website or by telephone. Once the application is submitted, our proprietary underwriting system immediately analyzes the borrower's information and renders a credit decision. Next, our Rapid Contact technology allows us to quickly place a call to customers welcoming them to E-LOAN, providing a credit decision, answering questions, verifying information in the application and informing them of what to expect from the process. Customers then receive their required disclosures electronically or in the mail, based on the customer's preference.

An E-Track account is created at the time a loan application is received and keeps the customer abreast of all pertinent information throughout the loan process. Customers are invited to visit their E-Track account frequently to review key steps in the loan process and receive updated information regarding their loan product, closing costs, and interest rate lock. They can also view loan disclosures and the progress of their loan application.

Although the E-Track account is available 24 hours a day, seven days a week, a dedicated loan consultant also maintains telephone and email contact with borrowers throughout the loan process in order to communicate major events and answer questions. One-on-one personal service begins as soon as the online application has been received, and continues until the loan has funded.

At the appropriate time, approved customers are invited to request an interest rate lock for their selected loan. An interest rate lock is an agreement between the borrower and the lender, specifying a number of days for which a loan's interest rate and points will be guaranteed by the lender. Lock requests can be made by phone or online through a customer's E-Track account. Customers are notified via email when their lock request has been confirmed.

As loan documentation is received, data provided by the customer at the time of initial origination is validated. Where needed, appraisals and title documents are ordered and reviewed by the loan consultant, who is supported by a loan processor.

Final loan approval is secured once all critical data elements have been validated and have been confirmed to satisfy the guidelines of the lending program sought by the borrower. If a borrower's loan does not satisfy loan program guidelines, the designated loan consultant will research additional loan programs for the customer. If a product cannot be secured for the customer, the customer will receive a letter stating the reasons that a loan could not be obtained.

After loans have been approved and all relevant conditions have been met, we prepare loan documents to be signed by the borrower. The assigned loan consultant will work with the borrower to schedule the closing of the loan and obtain the necessary signatures for funding. Often a mobile notary service is used to provide an added level of convenience for the borrower. Once the borrower has signed all documentation, the loan file is reviewed to identify any missing requirements. If complete, the loan is then funded and recorded as closed.

A quality control review of funded loans is performed prior to forwarding the loan documentation to the final mortgage loan purchaser or its designated custodian. An accounting audit is also performed to reconcile settlement information provided by escrow/attorney settlement agents with our internal information. Loan documentation relating to closed loans is then shipped to the mortgage loan purchaser or its designated custodian, and documentation is maintained to satisfy regulatory and company record retention requirements.

We also solicit customer feedback regarding the loan process to measure overall customer loyalty and to be utilized in developing future product and service enhancements.

Loan Products. Our broad and competitive product offerings include conforming and jumbo fixed rate mortgages, adjustable rate mortgages, alternate "A" and non-prime mortgage loans, concurrent second mortgages, and home equity loans and lines of credit.

The following table summarizes the mix of our mortgage and home equity closed loan volume by product type along with their median credit score and loan to value ("LTV") ratios for the year ended December 31, 2004:

	% Total	Median Credit Score	LTV*
Mortgage			
Conforming Fixed	49.8 %	717	68
Jumbo Fixed	4.4 %	758	64
Adjustable Rate	14.4 %	739	73
Alternate "A" and Non-Prime	14.8 %	727	75
Concurrent Second Mortgages	16.6 %	736	92
	100.0 %		
Home Equity			
Loans	29.7 %	711	86
Lines of Credit	70.3 %	727	77
	100.0 %		

* The LTV ratio on home equity and second mortgage products includes the value of the existing first mortgage (if applicable) and therefore represents the cumulative loan to value ratio (CLTV).

Conforming Fixed Rate Loans. These mortgage loans conform to the underwriting standards established by Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"). This product is limited to high-quality borrowers with good credit records and involves adequate down payments or mortgage insurance.

Jumbo Fixed Rate Loans. Jumbo loans are considered non-conforming mortgage loans because they have a principal loan amount in excess of the loan limits set by Fannie Mae and Freddie Mac (currently $359,650 for single-family, one-to-four-unit mortgage loans in the continental United States).

Adjustable Rate Mortgages (ARM). The ARM's defining feature is a variable interest rate that fluctuates over the life of the loan, usually 30 years. Interest rate fluctuations are based on an index that is related to Treasury bill rates, regional or national average cost of funds, or another widely published rate, such as the London InterBank Offered Rate ("LIBOR"). The period between the rate changes is called an adjustment period and may change every six months or once a year. The majority of the ARMs we originate include an initial fixed rate period of three to ten years, otherwise known as hybrid ARMs. The ARMs we originate include rate and payment caps, which limit the interest rate increase and payment amount for each adjustment period.

Alternate "A" and Non-Prime Mortgage Loans. From a credit risk standpoint, alternate "A" loan borrowers present a risk profile comparable to that of conforming loan borrowers, but require special underwriting considerations, such as a higher loan to value ratio or limited income verification. The non-prime mortgage loan focuses on customers whose borrowing needs are not served by traditional financial institutions. Borrowers of non-prime mortgage loans may have impaired or limited credit profiles, high levels of debt service to income, or other factors that disqualify them from conforming loans. The risk of originating mortgage loans to borrowers with higher credit risk is generally offset with higher interest rates than would be charged for a conventional loan. Offering this category of mortgage loans on a limited basis allows us to provide loan products to borrowers with a variety of credit profiles.

Concurrent Second Mortgage Loans. These loans take place concurrent to a first mortgage loan origination and are secured by a second lien on the related property.

Home Equity Loans and Lines of Credit. These loans are usually secured by second liens on the related property. Our home equity line of credit products bear an adjustable interest rate and generally provide for a 10-year draw period where the borrower withdraws needed cash and pays interest only, followed by a balloon payment of the outstanding balance of principal and interest. Our closed-end home equity loans are fixed rate loans that typically amortize over 15 to 30 years with a balloon payment due after 10 or 15 years.

Loan Underwriting. Our guidelines for underwriting conventional conforming loans comply with the underwriting criteria employed by Fannie Mae and/or Freddie Mac. Our underwriting guidelines and property standards for all other non-conforming loans are based on either general or investor specific guidelines that we establish to satisfy the criteria of the ultimate purchasers of the loans. We consider the following general underwriting criteria in determining whether to approve a loan application:

- Employment and income
- Credit history
- Property value and characteristics
- Available assets

Underwriting of Non-Conforming Loans. In some cases we develop a set of general underwriting guidelines (non-investor specific) for non-conforming loans that we believe are acceptable to a broad range of capital market investors. These guidelines go through a process in which multiple investors review and approve them prior to their adoption. While this process provides comfort that the guidelines will produce salable loans, it does not constitute a firm commitment on behalf of the investors to purchase loans that meet the criteria. Investors provide firm purchase commitments when we agree to sell them a specific group of loans at a specified price. The use of general guidelines provides for better internal operating efficiencies as compared to underwriting to a complex matrix of investor specific guidelines. The two main determinants for adopting general underwriting guidelines are the availability of multiple purchasers in the capital markets for the loan type (liquidity) and underlying risk profile of the loan type (credit quality and complexity of loans). We currently underwrite most of the following loan types using general guidelines: prime jumbo fixed rate mortgages, prime hybrid ARMs, and prime home equity loans and lines of credit. We use investor specific underwriting guidelines for the following loan types: some ARM mortgages, alternate "A" mortgages, non-prime mortgages, high loan to value loans, and any other loan type that involves complex terms and/or lower credit quality.

Typically, we sell our loans on a servicing released basis without recourse. By doing so, we reduce our risk of loss or default by the borrower, except that we may be required to repurchase the loan in the event of an early payment default. Although loans are sold without recourse, we may be required to repurchase the loan if we breach the representations or warranties that we make in connection with the sale of the loan, or if the loan does not comply with the underwriting standards or other requirements of the ultimate loan purchaser. Our loan sale agreements contain standard representations and warranties for such transactions, including, representations and warranties regarding compliance with applicable laws, ownership of the loans, enforceability of the loans, collateral condition, priority of liens, insurance, title insurance, timeliness of payments, and compliance with buyer's underwriting guidelines.

Automated Underwriting. Automated underwriting (AU) contributes significantly to our goal of increasing the efficiency of multi-source lending by providing customers with faster, more cost-efficient credit reviews and decisions. In addition, we believe customers also value the less onerous and time-consuming nature of AU relative to more traditional underwriting processes.

We have created our own proprietary underwriting engine that enables us to instantly underwrite loans at time of application at minimal cost. We are also approved as an originator under Fannie Mae's Desktop Originator and Desktop Underwriter system (DU), and Freddie Mac's Loan Prospector system (LP). These systems help automate the lending process for all conforming loans.

We will continue to seek to enhance our AU capabilities and incorporate as many techniques and technologies as are warranted by our business needs and the needs of our major business partners.

Automated Appraisal. The use of automated property valuation models (AVMs) to replace the traditional physical appraisal process is starting to gain acceptance by our capital market sources. This trend is particularly evident with our home equity products where approximately 69% of loans originated were funded using AVMs versus physical appraisals. Our customers benefit through reduced costs (the cost of a typical conforming first mortgage loan appraisal normally exceeds $300) and time savings. Freddie Mac and Fannie Mae are both considering purchasing no-appraisal loan products that use AVMs. Certain jumbo loan purchasers already accept no appraisal products that use AVMs. Broad capital markets acceptance of AVMs is necessary for a truly electronic loan offering.

Interest Rate Hedging. We attempt to minimize the interest rate risk associated with the time lag between when fixed rate mortgage loans are rate-locked with the customer and when they are committed for sale or exchanged in the secondary market, through our hedging activities. Individual mortgage loan risks are aggregated by loan type and stage in the pipeline, and are then matched, based on duration, with the appropriate hedging instrument, thus mitigating basis risk until closing and delivery. We believe that we have implemented a cost-effective hedging program to provide a level of protection against changes in the market value of rate-lock commitments. However, an effective strategy is complex and no hedging strategy can completely insulate against such changes.

Warehouse Credit Facilities. We use warehouse credit facilities to fund our loans prior to their sale to capital market loan purchasers, which typically occurs within 40 days. We currently draw on warehouse credit facilities established with Greenwich Capital Financial Products, Inc., GMAC Mortgage Corporation, JPMorgan Chase Bank, N.A. and Merrill Lynch Mortgage Capital, Inc. We have committed and uncommitted funds available through these facilities aggregating approximately $825 million as of March 15, 2005. The interest rate charged on these borrowings range from LIBOR plus 0.75% to 2.0%. The net of this expense and the corresponding interest income that we earn during the time loans are held for sale currently produces a positive interest spread.

Our agreements with our warehouse lenders require us to comply with various operating and financial covenants. Principally these covenants restrict our ability to:

- Sell any of our material assets or merge or consolidate with another company
- Issue additional shares of common stock
- Pay dividends on our outstanding shares of common stock
- Amend our Certificate of Incorporation or Bylaws

These covenants also require us to:

- Maintain minimum cash and cash equivalents, and tangible net worth

- Limit the amount of debt we incur relative to our net worth
- Ensure that our current assets are equal to or greater than our current liabilities
- Maintain two warehouse facilities at all times with minimum credit limits

Auto Operations

Overview. We are an online provider of auto loans for the purchase of new and used vehicles. We also offer auto refinance loans to customers with vehicles subject to an existing automobile installment loan. The mix of our auto loan originations in 2004 were 84% used versus new car, 55% purchase financing versus refinance related, and 100% prime versus sub-prime credit quality loans. The Company funds prime auto loans using a line of credit and then sells them either via whole loan sales or to a qualified special purpose entity (QSPE), which was created in July 2002. Revenues from sales to the QSPE consist of the estimated future discounted cash flows net of interest, servicing fees and credit losses. Revenues on prime auto loan sales to the QSPE are recognized when the loan is sold to the QSPE. In addition, in exchange for the loans sold, the Company records a retained interest. A discount rate has been applied to the asset to account for the present value of the cash flows to be received over the life of the loans. The retained interest is an interest-earning asset. The difference between the estimated discounted cash flows and the actual cash flows received over time are accreted and included as auto revenue.

In July 2004, the Company began selling a portion of its prime auto loan production to Merrill Lynch Bank USA pursuant to a Purchase and Sale agreement. The revenue on these loans is based on a fee derived from the composition of the loans being sold, and is recognized at time of transfer.

Prior to the third quarter of 2003, sub-prime auto loans were sold to sub-prime auto loan purchasers. The revenue on these loans consisted of the mark-up to the lending partner's loan price or a set origination fee. These revenues were recognized at the time the loan was sold. In the third quarter of 2003, the Company stopped processing and funding sub-prime auto loans and shifted this portion of the business to a referral based system. Presently loan applications that do not meet the prime auto lending criteria are referred to other sub-prime lenders in exchange for a fee. This fee is recognized as revenue at the time of transfer to the sub-prime lender and paid to the Company monthly for the previous month's referrals.

Obtaining a Loan. The process of obtaining a car loan involves fewer steps than a mortgage or home equity loan. The process begins when a customer searches for a rate, then completes a short, online application on our website. In certain cases, the application goes through an automated underwriting process that takes only minutes to complete. In other cases, applications requiring greater review are underwritten by E-LOAN underwriters.

If approved, a customer receives an email notification generally within minutes after submitting the application. Once approved, the customer is sent a PowerCheck℠ via regular mail or overnight delivery. A PowerCheck℠ works just like a personal check, and indicates the maximum amount the customer is approved for. The customer then takes the PowerCheck℠ to any licensed auto dealer and negotiates the purchase price for a vehicle of their choice, with a similar bargaining position that a cash purchaser brings to a dealer.

When the customer selects a vehicle, and the purchase price is finalized, the customer signs the PowerCheck℠ and presents it to the dealer as payment. The dealer is required to verify the customer's identity and obtain and forward any other supporting documents required to support the loan approval. In addition, the dealer ensures that the title is filed properly, with E-LOAN listed as the lien holder. The dealer then deposits the signed PowerCheck℠ as payment for the vehicle. After the dealer is funded, we deliver a copy of the final loan contract to the customer.

For auto refinance loans, the customer completes the necessary paperwork and then sends the PowerCheck℠ to pay off the existing lender. For private party loans, the buyer and seller meet to complete certain paperwork that is then faxed to us for approval and the PowerCheck℠ is sent to the existing lien holder or given to the seller if the auto is lien free.

Loan Underwriting. Our underwriting guidelines for auto loans generally consider the borrower's credit history, employment and income status. Our specific guidelines for prime auto loans were established with and approved by Merrill Lynch Bank USA ("Merrill Lynch") and are limited to high credit quality borrowers. Our expected credit risk (risk of loss) on prime auto loans is factored into our calculation of gain on sale.

Interest Rate Risk. Approved auto loan applicants are provided a guaranteed rate for up to a 45-day period. To mitigate the potential interest rate risk, we enter into amortizing swap auto loan contracts in an amount equal to the total approvals outstanding which are estimated to fund.

Line of Credit Facilities. We use a line of credit facility established with Merrill Lynch Mortgage Capital, Inc. to fund our loans prior to their sale to auto loan purchasers, which typically occurs within 10 days. We have $10 million in committed funds available through this facility that expires on July 13, 2007. The interest rate charged on this line is based on LIBOR plus various percentage points. This agreement also requires us to comply with various operating and financial covenants.

Loan Sales to QSPE. In June 2002, we created a qualified special purpose entity, E-Loan Auto Fund One, LLC ("E-Loan Auto"), which purchases prime auto loans from us and then holds the loans. Revenues from these sales consist of the discounted cash flows net of interest, servicing fees and credit losses. Revenues on prime auto loan sales are recognized when the loan is sold to the QSPE. The QSPE borrows money under a $1.0 billion credit facility it has established with Merrill Lynch Bank USA for this purpose.

TECHNOLOGY

Our technology systems use a combination of our own proprietary and open source technologies, and commercially available licensed technologies from industry leading providers, including Sun Microsystems, Cisco Systems and Oracle. Our systems were designed around industry standard architecture to reduce downtime in the event of outages or catastrophic occurrences. These systems provide availability 24 hours a day, seven days a week, and have capacity for peak activity levels without requiring additional hardware or support.

User Interface. Our website is designed for fast downloads and compatibility with most basic browsers. Pages are built with minimal graphics and do not require client-side plug-ins or Java to view.

Loan Application and Tracking. When a customer applies for a loan online, the application data is stored in a database server. As additional information, including credit reports, appraisal details and financial documentation, is obtained throughout the loan process and added to the borrower's file, e-mails are automatically sent to the borrower (and realtor, if authorized and applicable) to inform them of the current status of the loan application. At the same time, the borrower's E-Track account is updated.

Security. In order to safeguard borrowers' sensitive financial data, our systems provide secure online transaction capability. Customer information sent via the website is encrypted using a Secure Socket Layer ("SSL"). The network is protected with reliable firewall software. E-Track is password-protected so that only the borrower and authorized E-Loan employees may access the account. The servers containing borrower data are accessible only to authorized users within E-LOAN.

Server Hosting and Back-Up. Our website system hardware is hosted offsite at a web hosting company's facility that provides redundant communication lines and multiple emergency power back-up resources. Scheduled maintenance can take place without taking the website offline. A backup web hosting data center exists in the Company's Pleasanton facility. This facility has all equipment, software and data communications in place to continue E-LOAN business operations indefinitely in the event of a catastrophic business interruption of the primary facility.

CUSTOMERS

We are a direct-to-consumer lender. Our underwriting guidelines generally look at three areas to assess loan risk:

- Credit reputation: credit score and history
- Collateral: loan amount relative to the home or auto value
- Capacity to pay: income, debt, cash reserves

A credit score summarizes credit reputation. Credit scores generally range from the mid 300s to the mid 800s, with scores above 700 representing good to excellent credit. The median credit score for our mortgage, home equity, and auto loans in 2004 were 729, 723 and 726, respectively. Capital market loan purchasers look favorably upon loans with loan to value ratios ("LTV"s) below 80% and often pay a premium for those loans. The LTV of our mortgage and home equity loans in 2004 were 80% and 84% (ratio includes loan value of first mortgage), respectively.

Approximately 46% and 42% of all mortgage loans sold during the years ended December 31, 2003 and 2004, respectively, were sold to one mortgage loan purchaser, Wells Fargo Home Mortgage, Inc. Approximately 86% and 84% of all auto loans sold during the years ended December 31, 2003 and 2004 respectively were sold to one auto loan purchaser, E-Loan Auto Fund One, LLC. Approximately 45% of all home equity loans in 2003 were sold to Wells Fargo Bank, N.A. and approximately 30% of all home equity loans in 2004 were sold to E*TRADE.

GEOGRAPHIC INFORMATION

All of our revenue is generated from transactions originating in the United States. All of our fixed assets are located in the United States, principally at our headquarters in Pleasanton, California.

SEASONALITY

The mortgage banking industry is generally subject to seasonal trends. These seasonal trends reflect patterns in the national housing market. Home sales typically rise during the spring and summer seasons and decline during the fall and winter seasons. The effect of this seasonality is muted to the extent of mortgage refinancing activity, which is primarily driven by prevailing mortgage rates. In addition, mortgage delinquency rates typically rise temporarily in the winter months driven by mortgagor payment patterns.

MARKETING

Our brand and direct response marketing strategy is to attract home and auto loan applicants to our website by promoting the E-LOAN brand as a byword for trust, choice, open and honest competitive pricing and service for consumer loans. We rely on a variety of methods to promote our brand. By providing superior customer service, we promote referrals from satisfied borrowers and repeat business. Offline marketing focuses primarily on national television advertising that target the demographic and geographic segments with the highest propensity to utilize an online loan provider. Online marketing efforts are centered on marketing agreements with leading online companies, search engine marketing, and a select use of banner advertising. We also intend to take advantage of both short and long term cross-selling opportunities across our product lines.

Mortgage and Home Equity Loan Marketing. The majority of our mortgage and home equity applications are derived from our national television ads and direct mail campaigns. Our use of search word marketing through online websites such as Google and Overture and marketing agreements with online content websites such as Bankrate.com and Homestore drive applications through a hyperlink or banner advertisement on their website which leads the loan applicant to our website. We also have a marketing agreement with zipRealty, a technology based real estate company, pursuant to which zipRealty's website advertises exclusively our mortgage services and rates to visitors of the website. In addition, we engage in marketing activities at realtor and relocation trade shows and other events in the real estate industry in order to encourage realtors and relocation consultants to promote our website to homebuyers. A minority of our mortgage and home equity applications are derived from our online marketing agreements.

Auto Loan Online Marketing. Through marketing agreements with leading automotive websites and portals, such as Edmunds, e-Bay Motors, MSN Autos, NADAguides.com, Autobytel.com, and Bankrate.com, E-LOAN derives auto applications through many integrated auto loan centers, text links, and banner ads resulting in auto loans. The majority of our auto applications are derived from online marketing agreements.

COMPETITION

Primary Competition

We compete in three principal markets: mortgage loans, home equity loans and auto loans. Our primary sources of competition in each of these markets are traditional offline lenders and to a lesser extent online providers of consumer loans. The largest competitors by market are: mortgage brokers for mortgage loans, the consumer's bank for home equity loans, and auto dealers for auto loans.

Mortgage Loan Competition. Our largest competition for mortgage loans is mortgage brokers. The mortgage brokerage industry is very fragmented with a large number of brokers, none of which have a significant portion of the market for mortgage loans. Mortgage brokers continue to originate the majority of all mortgage loans. They originate these loans mostly for large, national mortgage wholesale lenders. The popularity of using brokers is indicative of consumers' desire to obtain a competitive price from among multiple lenders. Brokers are middlemen in the transaction and as a result they cannot completely control the fulfillment process, and overall customer experience, in contrast to a direct-to-consumer lender. The brokers' key competitive advantage is their existing relationships with real estate agents who refer purchase mortgage customers to them.

We fund most of our loans through the use of our warehouse lines of credit. Unlike a mortgage broker, as a direct-to-consumer lender we control all parts of the loan transaction process from application to funding of the loan. This offers the consumer the confidence that they are dealing with the ultimate decision maker on their loan, which allows for rapid credit decisions and streamlined processes. We believe real estate agents will gain confidence in our solution over time and want their customers to realize the benefits provided by our products and service. We also compete with the retail or direct-to-consumer divisions of the large, national mortgage lenders such as Wells Fargo Mortgage, Chase Manhattan Mortgage, Washington Mutual and Countrywide Financial Corporation. These institutions are involved at several levels of the mortgage lending industry. They loan directly to consumers in the retail market, utilize mortgage brokers to originate loans in the wholesale market and purchase funded loans from direct lenders including us, in the correspondent or conduit market. We believe we have a competitive advantage over these institutions in the retail market because we are able to offer our customers competitive rates and products from a selection of capital market sources while these institutions generally offer only their own rates and products. These institutions have the competitive advantage of having greater financial and marketing resources than we do. We do not believe the ability of these institutional lenders to make wholesale purchases of loans from their consumer divisions provides them any particular advantage, since the wholesale market for the purchase of loans consists of multiple competitive purchasers.

Home Equity Loan Competition. There is an under-developed competitive market for home equity loans as compared to mortgage loans. Because of this, consumers tend to apply for home equity loans with their primary bank because of its familiarity. The principal competitors in this market are Wachovia Corporation, Bank of America, Bank One Corporation and Wells Fargo Bank. Our advantage is that we are often able to offer a more streamlined loan process. However, our competitors have the advantage of having an existing relationship with the customer and substantially greater financial and marketing resources than we do.

Auto Loan Competition. Our largest competition for auto loans is the auto dealership's finance salesperson through their lending sources. These lending sources include large financial institutions such as Chase Manhattan and Bank of America as well as the automobile manufacturer's finance companies including Ford Motor Credit and GMAC. These institutions have strong, existing relationships with the automobile dealers as well as greater financial and marketing resources. Our advantage is that by separating the auto financing from the purchasing transactions, we allow borrowers to establish the credit terms in a competitive environment before they negotiate the purchase of the vehicle. In this manner, our borrowers avoid the risk of bundling the purchase price of the automobile and the price of financing.

Online Competition

Online Direct Lender Competition. Traditional single source lenders such as Washington Mutual, Countrywide Home Loans, Citibank and Bank of America have created websites which offer mortgage and home equity loans directly online as an alternative to the traditional process. The advantage of these lenders is that they have national reputations, substantial resources and extensive marketing greater than ours. These lenders, however, normally do not offer the consumer a selection of loan products from multiple capital market sources, and as a result may not provide the most competitive offers to the consumer.

The online lenders with the most comparative business models and product offerings are Quicken Loans, E*TRADE Mortgage Corporation, and Ditech.com for mortgage and home equity loans, and Capital One Auto Finance for auto loans. We compete with all of these online lenders on the basis of products, price and customer service. Quicken Loans was created through the purchase of Rock Financial by Intuit in December 1999. Intuit sold the company back to the founders of Rock Financial in 2002. Quicken Loans is a provider of direct-to-consumer home loans, offering mortgages in all 50 states on the internet through Quickenloans.com and in Michigan through Rock Financial. We believe that Quicken Loans still enjoys a competitive marketing advantage over us in its access to the vast Intuit customer base. E*TRADE Mortgage Corporation is also a direct-to-consumer lender of various mortgage products. E*TRADE Mortgage Corporation was formed in February 2001 when LoansDirect merged with E*TRADE Group, Inc. E*TRADE Mortgage Corporation also has a marketing competitive advantage over us based on its ability to cross sell to its brokerage and banking customers. Ditech.com is a division of GMAC Mortgage Corporation and as such it enjoys a competitive advantage over us in its substantially greater financial and marketing resources. Capital One Auto Finance is an online direct auto loan provider and enjoys a competitive marketing advantage over us in its access to Capital One's approximately 49 million customers. According to the Q1 2004 Internet Scorecard for Mortgages produced by Gomez Research, a research group that provides objective, customer-focused research scorecards on various online financial services categories, including, ease of use, customer confidence, on-site resources, and relationship services, we ranked third overall out of the fifteen lenders evaluated. Our closest online competitor, E*TRADE Mortgage Corporation, ranked fourth. We know of no similar research available for online home equity or auto loans.

Loan Marketplace Websites. We compete with a number of consumer loan websites that act similarly to traditional loan brokers, offering multi-lender distribution channels for banks and other financing sources. The most significant competitors in this area are LendingTree and GetSmart, a unit of Lending Tree. These websites are marketplaces that operate on an advertising model but do not actually make loans; they simply provide a conduit between borrower and lender. They do not offer complete transaction fulfillment for customers, and therefore, add additional steps and fees to the lending process. We believe we have a competitive advantage in being a direct lender because our control over the fulfillment process allows us to remove the redundant or unnecessary steps and related costs involved in getting a loan, and to pass savings onto the consumer. In addition, our capital markets access to multiple loan purchasers further enables us to provide consumers with highly competitive rates.

LICENSING AND REGULATION OF MORTGAGE AND AUTO LOAN BUSINESS

We are licensed as a mortgage banker and/or mortgage broker, or are otherwise authorized to originate mortgage loans in all states and the District of Columbia. We have obtained necessary licenses and authorizations in every state that requires such licensing for our online operations and originate auto loans in most, but not all, states. In a few states where licensing is not available for our particular online lending operations, we limit our product offerings to comply with state law.

The mortgage and auto loan businesses are highly regulated. In order to offer our mortgage and auto loan services, we must comply with federal and state laws and regulations relating to licensing, advertising, loan disclosures and servicing, rate and fee limits, use of credit reports, notification of action taken on loan applications, privacy, discrimination, unfair and deceptive business practices, payment or receipt of kickbacks, referral fees or unearned fees in connection with the provision of real estate settlement services, and other requirements.

Current laws, and those enacted or interpreted to deal with Internet transactions and other aspects of our business, may be revised or interpreted in ways that adversely affect our business. We believe we are in substantial compliance with the laws applicable to our business, and have taken prudent steps to mitigate risks associated with offering loan services through the Internet.

CUSTOMER PRIVACY

We believe that the privacy of customer information is important to uphold both online and offline. We disclose our information handling practices in a detailed privacy policy, which is prominently accessed from every page of our website. Our policy is based on fair information practices and privacy law.

The Gramm-Leach-Bliley Act ("GLBA"), among other things:

- Restricts financial institutions from disclosing nonpublic personal information about a consumer, subject to certain exceptions;

- Requires financial institutions to disclose its privacy policies and practices with respect to information sharing;

- Does not preempt any state law that provides greater protection than provided for in the GLBA; and

- Requires that financial institutions provide a means for consumers to opt out of information sharing with third parties, subject to certain exceptions.

We believe consumers should have more control over the sharing of their personal financial information. Therefore, we provide more privacy protections than federal law currently requires and have worked with consumer groups to create stronger California privacy legislation.

EMPLOYEES

As of December 31, 2004, we employed 930 full- and part-time employees (including temporary and contract employees), of whom 299 were in mortgage loan operations, 343 were in home equity loan operations, 100 were in auto loan operations, 23 were in closing service, 72 were in administration, 24 were in marketing and business development, and 69 were in engineering. None of our employees are represented by a labor union or are the subject of a collective bargaining agreement.

E-LOAN ON THE INTERNET

Topics featured in this 10-K can be found via our home page on the Internet (www.eloan.com). Financial results, news on E-LOAN products, services and other activities can also be found via that address. We file reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any other filings required by the SEC.

E-LOAN's website (www.eloan.com) contains a significant amount of information about E-LOAN, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. These materials are available free of charge on or through our website via the Investor & Media Relations page at www.eloan.com. References to the Company's website address in this report are intended to be inactive textual references only, and none of the information contained on our website is part of this report or incorporated in this report by reference.

The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 2. PROPERTIES

E-LOAN is headquartered in Pleasanton, California, where it leases approximately 118,000 square feet of space primarily in a single building where its mortgage, home equity loan and auto operations take place. The lease for E-LOAN's office space in Pleasanton expires in June 2010.

ITEM 3. LEGAL PROCEEDINGS

The Company has been named as a defendant in five related lawsuits filed in the Federal District Court for the

Southern District of New York between August 10, 2001 and September 25, 2001. The lawsuits purport to be class actions filed on behalf of the plaintiffs and others similarly situated. They name as defendants E-LOAN, Christian Larsen, Janina Pawlowski, Frank Siskowski, The Goldman Sachs Group, Inc., FleetBoston Robertson Stephens, Inc., Merrill Lynch Pierce Fenner & Smith, Inc., Credit Suisse First Boston Corp. and J.P. Morgan Chase & Co., some of which were involved in the Company's initial public offering. The complaints have since been consolidated into a single action. The Consolidated Amended Complaint alleges, among other things, that the underwriters of the Company's initial public offering violated Section 12(a) of the Securities Act of 1933 by receiving excessive and undisclosed commissions and fees, and by entering into unlawful private agreements with brokers' customers, and that all defendants violated Section 11 of the Securities Act of 1933, and Section 10(b) and Rule 10b-5 under the Securities Exchange Act of 1934 by making material false and misleading statements in the Company's initial public offering prospectus concerning brokers' commissions and private agreements with brokers' customers. The plaintiffs seek to recover damages on behalf of all those who purchased or otherwise acquired E-LOAN securities during the respective class period. Similar complaints have been filed against over 300 other issuers that have had initial public offerings since 1998 and all such actions have been included in a single coordinated proceeding. On October 9, 2002, the Company's individual defendants were dismissed, without prejudice, from the lawsuit, pursuant to a stipulated agreement with the plaintiffs.

On June 25, 2003, a committee of the Company's Board of Directors conditionally approved a proposed partial settlement with the plaintiffs in this matter. The settlement would provide, among other things, a release of the Company and of the individual defendants for the conduct alleged in the action to be wrongful in the Amended Complaint. The Company would agree to undertake other responsibilities under the partial settlement, including agreeing to assign away, not assert, or release certain potential claims the Company may have against its underwriters. Any direct financial impact of the proposed settlement is expected to be borne by the Company's insurers. The committee agreed to approve the settlement subject to a number of conditions, including the participation of a substantial number of other Issuer Defendants in the proposed settlement, the consent of the Company's insurers to the settlement, and the completion of acceptable final settlement documentation.

In June 2004, an agreement of settlement was submitted to the court for preliminary approval. The court granted the preliminary approval motion on February 15, 2005, subject to certain modifications. The parties are directed to report back to the court regarding the modifications. If the parties are able to agree upon the required modifications, and such modifications are acceptable to the court, notice will be given to all class members of the settlement, a "fairness" hearing will be held and if the court determines that the settlement is fair to the class members, the settlement will be approved. Due to the inherent uncertainties of litigation, and because the settlement approval process is at a preliminary stage, the ultimate outcome of the matter cannot be predicted.

On March 1, 2005, Thomas A. Murray filed a complaint against the Company in the U.S. District Court for the Northern District of Illinois, Eastern Division, as case no. 05C-1219. The complaint alleges that the Company violated the federal Fair Credit Reporting Act in connection with a direct mailing sent to Mr. Murray. The complaint seeks damages in an unspecified amount, attorneys' fees, litigation expenses and costs of suit. The complaint purports to be a class action filed on behalf of all persons with Illinois addresses who received the mailing. The Company has not yet filed a response to the complaint. Seven similar complaints were recently filed in the district court against other parties, and on March 17, 2005 the district court denied the plaintiff's motion to reassign the cases to the judge who was presiding over a similar case that was filed in 2002. The case is pending. Due to the inherent uncertainties of litigation, the ultimate outcome of this matter cannot be predicted.

The Company is subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's results of operations, financial position or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

E-LOAN's (the "Company") common stock has been quoted on the Nasdaq National Market under the symbol "EELN" since its initial public offering on June 28, 1999. Prior to this time, there was no public market for the Company's common stock. The following table shows the high and low closing sale prices per share of the Company's common stock as reported on the Nasdaq National Market for the periods indicated:

	High	Low
Fiscal 2003:		
First Quarter	$ 2.75	$ 1.87
Second Quarter	6.81	2.55
Third Quarter	6.95	3.18
Fourth Quarter	4.42	2.55
Fiscal 2004:		
First Quarter	3.72	2.63
Second Quarter	3.10	2.08
Third Quarter	2.64	2.00
Fourth Quarter	3.66	2.01

On March 11, 2005, the last reported sale price of the Company's common stock on the Nasdaq National Market was $3.16 per share. The Company had approximately 256 holders of record of our common stock on that date.

The Company has never declared or paid any cash dividends on its capital stock. The Company currently expects to retain future earnings, if any, for use in the operation and expansion of its business and does not anticipate paying any cash dividends in the foreseeable future. The covenants under the Company's warehouse lines of credit prohibit the Company from paying cash dividends without the consent of Greenwich Capital Financial Products, Inc. or if in so doing, it caused the Company to breach its tangible net worth covenant with GMAC Mortgage Corporation. The covenants under the Merrill Lynch Capital Inc. warehouse line prevent the payment of dividends in excess of 50% of the net income for the calendar year.

The Company's equity plan information required by this item is incorporated by reference from the information under the heading "Equity Compensation Plan Information" in the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on June 15, 2005.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)

The selected financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is qualified by reference to the Financial Statements and Notes thereto appearing elsewhere in this document. The balance sheet data as of December 31, 2003 and 2004 and the income statement data for each of the five years in the period ended December 31, 2004 are derived from, and are qualified by reference to, the audited financial statements of the Company included elsewhere in this document.

	Years Ended December 31,				
	2000	2001	2002	2003	2004
INCOME STATEMENT DATA:					
Revenues	$ 35,879	$ 67,950	$ 103,315	$ 152,707	$ 135,093
Operating expenses:					
Operations	31,747	42,946	52,854	69,716	66,208
Sales and marketing	28,506	16,785	25,365	41,368	47,617
Technology	6,207	6,325	6,336	8,414	8,824
General and administrative	6,840	5,784	7,225	8,845	11,745
Non-cash marketing costs	6,490	5,970	--	--	--
Amortization of unearned compensation	9,392	5,164	--	--	--
Amortization of goodwill and intangible assets	39,733	28,144	--	--	--
Total operating expenses	128,915	111,118	91,780	128,343	134,394
Income (loss) from operations	(93,036)	(43,168)	11,535	24,364	699
Other income, net	1,276	3,638	80	140	87
Income (loss) before taxes	(91,760)	(39,530)	11,615	24,504	786
Income taxes	--	--	(964)	(1,883)	36
Net income (loss)	$ (91,760)	$ (39,530)	$ 10,651	$ 22,621	$ 822
Net income (loss) per share:					
Basic	$ (1.91)	$ (0.73)	$ 0.18	$ 0.37	$ 0.01
Diluted	$ (1.91)	$ (0.73)	$ 0.18	$ 0.34	$ 0.01
BALANCE SHEET DATA (AT END OF PERIOD):					
Cash and cash equivalents	$ 28,459	$ 32,538	$ 36,321	$ 33,973	$ 55,066
Loans held-for-sale	22,745	162,246	393,386	50,874	17,505
Retained interests in auto loans - trading	--	--	3,969	11,658	13,954
Goodwill and intangible assets	28,144	--	--	--	--
Total assets	99,743	210,626	452,036	138,447	121,399
Warehouse and other lines payable	17,678	158,148	383,647	44,283	14,735
Long term obligations	1,088	5,000	--	--	--
Total stockholders' equity	67,486	39,768	56,040	81,614	86,188

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

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the financial statements and the related notes thereto included elsewhere in this document. This discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below, as well as those discussed below under Factors Affecting Future Operating Results. The Company disclaims any obligation to update information contained in any forward-looking statement.

OVERVIEW

The Company is an online consumer direct lender, specializing in mortgage, home equity and auto loans. As a retail lender, the Company is heavily impacted by economic conditions (such as interest rates) and seasonal/cyclical factors. To help mitigate this, the Company has focused on its diversified revenue products, which consist of purchase and non-prime mortgage loans, home equity loans and lines of credit, and auto loans. Additionally, the Company strives to be a low-cost provider with a vision of driving overall prices lower, which creates marketing efficiency. The result is a virtuous cycle connecting efficiencies in capital markets, operations and customer acquisition.

QUARTERLY RESULTS

The following table sets forth the unaudited results of operations for the Company on a quarterly basis and expressed as a percentage of total revenues (dollars in thousands):

	Three Months Ended							
	March 31, 2003	**June 30, 2003**	**Sept. 30, 2003**	**Dec 31, 2003**	**March 31, 2004**	**June 30, 2004**	**Sept. 30, 2004**	**Dec 31, 2004**
Revenues	$ 36,209	$ 45,231	$ 44,706	$ 26,561	$ 30,631	$ 33,399	$ 35,098	$ 35,965
Operating expenses:								
Operations	16,449	19,993	18,353	14,921	14,942	16,264	17,459	17,543
Sales and marketing	8,492	11,433	11,890	9,553	11,132	12,506	12,105	11,873
Technology	1,876	2,479	2,205	1,854	2,166	2,091	2,271	2,296
General and administrative	1,998	2,901	2,162	1,784	3,516	2,358	2,528	3,342
Total operating expenses	28,815	36,806	34,610	28,112	31,756	33,219	34,363	35,054
Income (loss) from operations	7,394	8,425	10,096	(1,551)	(1,125)	180	735	911
Other income, net	32	68	15	25	15	10	26	36
Income (loss) before taxes	7,426	8,493	10,111	(1,526)	(1,110)	190	761	947
Income taxes	(829)	(1,008)	(1,782)	1,736	--	--	(51)	87
Net income (loss)	$ 6,597	$ 7,485	$ 8,329	$ 210	$ (1,110)	$ 190	$ 710	$ 1,034
Net income per share								
Basic	$ 0.11	$ 0.12	$ 0.14	$ --	$ (0.02)	$ --	$ 0.01	$ 0.02
Diluted	$ 0.10	$ 0.11	$ 0.12	$ --	$ (0.02)	$ --	$ 0.01	$ 0.02
AS A PERCENTAGE OF REVENUES:								
Revenues	100%	100%	100%	100%	100%	100%	100%	100%
Operating expenses:								
Operations	45%	44%	41%	56%	49%	49%	50%	49%
Sales and marketing	23%	25%	27%	36%	36%	37%	34%	33%
Technology	5%	5%	5%	7%	7%	6%	6%	6%
General and administrative	6%	6%	5%	7%	12%	7%	7%	9%
Total operating expenses	80%	81%	77%	106%	104%	99%	98%	97%
Income (loss) from operations	20%	19%	23%	-6%	-4%	1%	2%	3%
Other income, net	0%	0%	0%	0%	0%	0%	0%	0%
Income (loss) before taxes	21%	19%	23%	-6%	-4%	1%	2%	3%
Income taxes	-2%	-2%	-4%	7%	--	--	-0%	0%
Net income (loss)	18%	17%	19%	1%	-4%	1%	2%	3%

REVENUES

The Company is a consumer direct lender whose revenues are derived primarily from the gain on sale of mortgage, home equity and auto loans that it underwrites, funds and sells. The Company also earns interest income on mortgage and home equity loans during the brief time they are held pending sale.

The following table provides the components of revenue shown in thousands and as a percentage of total revenues:

	Three Months Ended							
	March 31, 2003	June 30, 2003	Sep. 30, 2003	Dec. 31, 2003	March 31, 2004	June 30, 2004	Sep. 30, 2004	Dec. 31, 2004
Revenues:								
Mortgage	$ 24,273	$ 31,039	$ 28,146	$ 13,869	$ 15,508	$ 17,089	$ 14,421	$ 16,933
Interest income on mortgage loans	4,422	4,758	4,535	1,762	1,259	2,428	1,160	2,887
Home equity	4,051	5,398	7,637	7,063	9,555	8,738	13,216	10,709
Interest income on home equity loans	323	608	1,079	988	480	944	930	1,586
Auto	2,885	3,035	2,927	2,568	3,062	2,921	3,665	2,513
Closing services	--	--	--	--	451	984	1,407	1,065
Other	255	393	382	311	316	295	299	272
Total revenues	$ 36,209	$ 45,231	$ 44,706	$ 26,561	$ 30,631	$ 33,399	$ 35,098	$ 35,965
Mortgage	67 %	69 %	63 %	52 %	51 %	51 %	41 %	47 %
Interest income on mortgage loans	12 %	10 %	10 %	7 %	4 %	7 %	3 %	8 %
Home equity	11 %	12 %	17 %	27 %	31 %	26 %	38 %	30 %
Interest income on home equity loans	1 %	1 %	2 %	4 %	2 %	3 %	3 %	4 %
Auto	8 %	7 %	7 %	10 %	10 %	9 %	10 %	7 %
Closing services	-- %	-- %	-- %	-- %	1 %	3 %	4 %	3 %
Other	1 %	1 %	1 %	1 %	1 %	1 %	1 %	1 %
Total revenues	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

The following table summarizes dollar volume of loans sold and the revenue in both dollars and average basis points ("BPS") (dollars in thousands except BPS):

	Three Months Ended							
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Mortgage								
$ Volume	$ 1,110,008	$ 1,214,742	$ 1,289,200	$ 723,891	$ 757,107	$ 899,073	$ 709,941	$ 801,575
Revenue	$ 24,273	$ 31,039	$ 28,146	$ 13,869	$ 15,508	$ 17,089	$ 14,421	$ 16,933
BPS	219	256	218	192	205	190	203	211
Home Equity								
$ Volume	$ 167,789	$ 192,169	$ 275,227	$ 273,456	$ 302,250	$ 331,673	$ 403,814	$ 320,596
Revenue	$ 4,051	$ 5,398	$ 7,637	$ 7,063	$ 9,555	$ 8,738	$ 13,216	$ 10,709
BPS	241	281	277	258	316	263	327	334
Auto								
$ Volume	$ 168,106	$ 164,729	$ 193,582	$ 159,474	$ 153,889	$ 161,936	$ 176,624	$ 143,877
Revenue	$ 2,885	$ 3,035	$ 2,927	$ 2,568	$ 3,062	$ 2,921	$ 3,665	$ 2,513
BPS	172	184	151	161	199	180	208	175

Mortgage Revenues. The Company's mortgage revenues are derived from the origination and sale of loans. Mortgage loans are funded through the Company's warehouse lines of credit and sold to mortgage loan purchasers typically within thirty days. Mortgage loan revenues consist of proceeds in excess of the carrying value of the loan, origination fees less certain direct origination costs and other processing costs. These revenues are recognized at the time the loan is sold. Mortgage revenues consist of refinance mortgage revenues and diversified mortgage revenues – which are comprised of purchase and non-prime mortgage loans. Mortgage revenues benefited significantly from increases in mortgage refinance revenues during the first three quarters of 2003 but started to decline in the fourth quarter of 2003 as mortgage interest rates began to increase and the mortgage market shifted away from refinance loans. As mortgage rates continued to increase, refinance revenues remained at this reduced level throughout 2004. In addition, as the refinance market tightened, increased competitive pricing impacted the revenue earned per loan. Diversified mortgage revenues also declined in the fourth quarter of 2003 and remained modest during 2004 as competition increased for these products with the large decline in refinance volume. The Company expects further declines in refinance loan volume offset by growth in diversified mortgage loan volume in 2005.

The following table summarizes dollar volume of mortgage loans sold and the revenue in both dollars and average basis points ("BPS") (dollars in thousands except BPS):

	Three Months Ended							
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Refinance Mortgage								
$ Volume	$ 755,489	$ 778,835	$ 649,512	$ 332,810	$ 409,902	$ 496,332	$ 331,996	$ 447,428
Revenue	$ 18,155	$ 21,132	$ 17,548	$ 7,356	$ 8,458	$ 8,430	$ 6,823	$ 9,495
BPS	240	271	270	221	206	170	206	212
Diversified Mortgage								
$ Volume	$ 354,519	$ 435,907	$ 639,688	$ 391,081	$ 347,205	$ 402,741	$ 377,945	$ 354,147
Revenue	$ 6,118	$ 9,907	$ 10,598	$ 6,513	$ 7,050	$ 8,659	$ 7,598	$ 7,438
BPS	173	227	166	167	203	215	201	210

The following table illustrates the percentages of the Company's mortgage closed loan volume from purchase and refinance loans as compared to the total market (according to Mortgage Bankers Association of America) through 2004. The Mortgage Bankers Association of America data for the fourth quarter of 2004 and the year ended 2004 below represents its estimate as of December 20, 2004:

	2002	2003	Q1 04	Q2 04	Q3 04	Q4 04	2004
E-LOAN Mortgage*							
Purchase	21%	36%	37%	37%	44%	35%	38%
Refinance	79%	64%	63%	63%	56%	65%	62%
Total Market							
Purchase	41%	34%	47%	51%	67%	58%	56%
Refinance	59%	66%	53%	49%	33%	42%	44%

* Excludes home equity and auto loan volume

Home Equity Revenues. Home equity revenues are derived from the origination and sale of loans. Home equity loans are funded through the Company's warehouse lines of credit and sold to home equity loan purchasers in approximately forty days from funding. Home equity loan revenues consist of proceeds recorded at settlement in excess of the carrying value of the loan, origination fees less certain direct origination costs and other processing costs. These revenues are recognized at the time the loan is sold. Home equity revenues increased significantly during 2004 from 2003 due to increased volume of sold loans as well as increased revenue per loan.

Interest Income on Mortgage and Home Equity Loans. The Company generates revenues from interest income on mortgage and home equity loans. The revenues realized are based on the loan amount multiplied by the contractual interest rate from the time of funding by the Company through time of sale. These revenues are recognized as earned during the period from funding to sale. Interest income is highly correlated to the volume of loans funded. As such, with relatively lower mortgage revenue in 2004, the Company experienced lower interest income on mortgages. In turn, home equity fundings increased in 2004 as did interest income on home equity loans and lines of credit.

Auto Revenues. The Company funds prime auto loans using a line of credit and then sells them either via whole loan sales or to a qualified special purpose entity (QSPE), which was created in July 2002. Revenues from sales to the QSPE consist of the estimated future discounted cash flows net of interest, servicing fees and credit losses. Revenues on prime auto loan sales to the QSPE are recognized when the loan is sold to the QSPE. In addition, in exchange for the loans sold, the Company records a retained interest. A discount rate has been applied to the asset to account for the present value of the cash flows to be received over the life of the loans. The retained interest is an interest-earning asset. The difference between the estimated discounted cash flows and the actual cash flows received over time are accreted and included as auto revenue.

In July 2004, the Company began selling a portion of its prime auto loan production to Merrill Lynch Bank USA pursuant to a Purchase and Sale agreement. The revenue on these loans is based on a fee derived from the composition of the loans being sold, and is recognized at time of transfer.

Prior to the third quarter of 2003, sub-prime auto loans were sold to sub-prime auto loan purchasers. The revenue on these loans consisted of the mark-up to the lending partner's loan price or a set origination fee. These revenues were recognized at the time the loan was sold. In the third quarter of 2003, the Company stopped processing and funding sub-prime auto loans and shifted this portion of the business to a referral based system. Presently loan applications that do not meet the prime auto lending criteria are referred to other sub-prime lenders in exchange for a fee. This fee is recognized as revenue at the time of transfer to the sub-prime lender and paid to the Company monthly for the previous month's referrals. As expected, this transition resulted in a reduction in overall auto loan volume during 2004.

Auto revenues averaged $2.9 million per quarter during 2003 and $3.1 million per quarter during 2004. The increase in auto revenues is primarily due to an increase in revenue per loan.

Closing Services Revenues. In the fourth quarter of 2003, the Company formed Escrow Closing Services, Inc, a wholly-owned subsidiary, which provides mortgage closing services, including HUD-1 and document preparation and signing, disbursement and recording services for a portion of our home equity business. The increase in closing services revenue in 2004 as compared to 2003 is based on a full year of activity in 2004 compared to starting operations at the end of 2003.

OPERATING EXPENSES

Total Operating Expenses. Total operating expenses include operational costs associated with the origination of mortgage, home equity and auto loans, including interest expense on warehouse lines, as well as costs associated with marketing, technology and administrative.

The following table provides detail of the Company's total operating expenses classified by major types of expense, expressed as a percentage of total operating expenses:

	Three Months Ended							
	March 31, 2003	**June 30, 2003**	**Sept. 30, 2003**	**Dec. 31, 2003**	**March 31, 2004**	**June 30, 2004**	**Sept. 30, 2004**	**Dec. 31, 2004**
Compensation & Benefits	44%	44%	43%	42%	44%	40%	42%	40%
Processing Costs	10%	8%	8%	10%	9%	10%	10%	10%
Advertising & Marketing	25%	28%	30%	31%	31%	34%	32%	30%
Occupancy & Administrative	12%	12%	11%	13%	13%	12%	13%	13%
Interest Expense on Warehouse	9%	8%	8%	4%	3%	4%	3%	7%

As almost half of the total operating expenses of the Company are compensation and benefit related, the following table shows full-time headcount (including temporary and contract employees) by function at the end of each respective quarter:

	Three Months Ended							
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Mortgage	391	423	454	334	277	286	304	299
Home Equity	172	178	246	264	256	288	339	343
Auto	148	114	111	90	81	82	105	100
Closing services	--	--	--	--	14	20	29	23
Sales & Marketing	28	31	30	28	26	29	29	24
Technology	55	64	61	55	62	59	68	69
General & administrative	47	56	67	60	67	74	73	72
Total	841	866	969	831	783	838	947	930

Operations. Operations expense is comprised of both fixed and variable expenses, including employee compensation and expenses associated with the production and sale of loans and interest expense paid by the Company under the warehouse and line of credit facilities it uses to fund mortgage, home equity and auto loans held-for-sale.

The following table provides detail of the Company's operations expenses classified by the following revenue-related categories (dollars in thousands):

	Three Months Ended							
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec 31, 2003	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec 31, 2004
Mortgage	$ 8,186	$ 10,250	$ 9,257	$ 7,082	$ 6,648	$ 6,877	$ 7,068	$ 6,708
Interest expense on mortgage loans	2,178	2,314	2,150	785	602	1,004	576	1,773
Home equity	3,082	3,254	3,883	4,600	5,070	5,247	6,068	5,426
Interest expense on home equity loans	220	473	521	510	283	435	500	859
Auto	2,783	3,702	2,542	1,944	1,834	1,836	1,992	1,873
Closing services	--	--	--	--	505	865	1,255	904
Total operations	$ 16,449	$ 19,993	$ 18,353	$ 14,921	$ 14,942	$ 16,264	$ 17,459	$ 17,543

Operations expense averaged $17.4 million per quarter during 2003 and $16.6 million per quarter during 2004. Operations expense increased during the second and third quarters of 2003 primarily due to increases in mortgage operations expense associated with the mortgage volume during that period. Operations expense increased from $14.9 for the first quarter of 2004 to $17.5 million for the fourth quarter of the year primarily due to increases in interest expense and the additional costs associated with closing services. Operations expense increased as a percentage of revenues from 45% for the first quarter of 2003 to 56% for the fourth quarter of 2003. The increase in operations expense as a percentage of revenue in the fourth quarter of 2003 was due to decreased volumes of mortgage fundings and lower mortgage revenue per loan, resulting in overall lower revenues. Operations expense increased as a percentage of revenues from the fourth quarter of 2003 to 49% in the first quarter of 2004 and remained relatively constant at that percentage during the remainder of the year.

The following table provides detail of the Company's total mortgage operations expenses (excluding interest expense) classified by major types of expense, expressed as a percentage of total mortgage operations expenses (excluding interest expense):

	Three Months Ended							
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Mortgage Operations								
Headcount & Related	46%	45%	46%	46%	47%	46%	45%	46%
Commissions	23%	25%	24%	19%	20%	21%	24%	23%
Processing Costs	21%	20%	18%	19%	19%	19%	16%	18%
Facilities & Other	10%	10%	12%	16%	14%	14%	15%	13%

The following table provides detail of the Company's total home equity operations expenses (excluding interest expense) classified by major types of expense, expressed as a percentage of total home equity operations expenses (excluding interest expense):

	Three Months Ended							
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Home Equity Operations								
Headcount & Related	64%	59%	60%	58%	59%	58%	57%	62%
Commissions	8%	12%	14%	10%	12%	12%	14%	10%
Processing Costs	18%	18%	16%	21%	18%	19%	18%	17%
Facilities & Other	10%	11%	10%	11%	11%	11%	11%	11%

The following table provides detail of the Company's total auto operations expenses (excluding interest expense) classified by major types of expense, expressed as a percentage of total auto operations expenses (excluding interest expense):

	Three Months Ended							
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003	March 31, 2004	June 30, 2004	Sept. 30, 2004	Dec. 31, 2004
Auto Operations								
Headcount & Related	57%	65%	70%	65%	68%	64%	64%	67%
Commissions	--	1%	2%	2%	--	--	--	--
Processing Costs	15%	9%	15%	17%	13%	16%	14%	16%
Facilities & Other	28%	25%	13%	16%	19%	20%	22%	17%

Direct Margin. Direct margin is defined as revenue minus operations expense, which includes variable and fixed expenses.

The following table provides detail of the Company's direct margin classified by the following revenue-related categories (dollars in thousands):

	Three Months Ended							
	March 31, 2003	June 30, 2003	Sep. 30, 2003	Dec. 31, 2003	March 31, 2004	June 30, 2004	Sep. 30, 2004	Dec. 31, 2004
Mortgage	$ 16,087	$ 20,789	$ 18,889	$ 6,787	$ 8,860	$ 10,212	$ 7,353	$ 10,225
Mortgage interest margin	2,244	2,444	2,385	977	657	1,424	584	1,114
Home equity	969	2,144	3,754	2,463	4,485	3,491	7,148	5,283
Home equity interest margin	103	135	558	478	197	509	430	727
Auto	102	(667)	385	624	1,228	1,085	1,673	640
Closing services	--	--	--	--	(54)	119	152	161
Other	255	393	382	311	316	295	299	272
Total direct margin	$ 19,760	$ 25,238	$ 26,353	$ 11,640	$ 15,689	$ 17,135	$ 17,639	$ 18,422

Direct margin decreased from the first quarter to the fourth quarter of 2003 due to decreased mortgage revenue per loan and decreased mortgage volumes, particularly from refinance loans. Direct margin began to increase during 2004 as home equity volumes and revenue per loan increased. Auto direct margins increased, primarily due to increased revenue per loan, in spite of decreased volumes. Additionally, in the first six months of 2003, the Company incurred significant one-time costs in connection with the transition of auto operations from Florida to California, which negatively impacted direct margins for that time period. In general, mortgage revenue per loan and the spread of interest income over interest expense was down in 2004 as compared to 2003, as the overall level of refinance activity declined and competitive pricing pressure increased. Home Equity direct margins are expected to continue to improve going into 2005, corresponding to the increase in loan volumes and revenue per loan. The Company also expects to continue to generate favorable auto direct margin in 2005.

Sales and Marketing. Sales and marketing expense is primarily comprised of expenses related to advertising, promotion and marketing agreements, employee compensation, and other expenses related to marketing personnel. Sales and marketing expense increased in 2004 as a direct result of increased spending in direct response television, direct response mail and online advertising. Sales and marketing expense increased as a percentage of revenue due to a combination of increased spending levels and the decreased volumes in revenue. Sales and marketing expenses are expected to remain constant as a percentage of total revenues in 2005.

The following table provides detail of the Company's total sales and marketing expenses classified by major types of expense, expressed as a percentage of total sales and marketing expenses:

	Three Months Ended							
	March 31, 2003	**June 30, 2003**	**Sept. 30, 2003**	**Dec. 31, 2003**	**March 31, 2004**	**June 30, 2004**	**Sept. 30, 2004**	**Dec. 31, 2004**
Direct Response TV	46%	53%	57%	56%	54%	44%	43%	42%
Direct Response Mail	11%	12%	16%	18%	15%	18%	15%	10%
Online Advertising	25%	17%	13%	14%	19%	25%	29%	35%
Other Advertising	3%	7%	3%	2%	1%	3%	3%	3%
Headcount & Administrative	15%	11%	11%	10%	11%	10%	10%	10%

Technology. Technology expense includes employee compensation, the introduction of new technologies and the support of E-LOAN's existing technological infrastructure. Technology expense has remained relatively constant, averaging $2.1 million and $2.2 million per quarter during 2003 and 2004 respectively. Technology expense as a percentage of revenues increased from 5% during 2003 to 6% during 2004 due primarily to decreased revenue. The Company expects technology expense to continue at approximately 6% of total revenues in the upcoming quarters.

General and Administrative. General and administrative expense is primarily comprised of employee compensation and professional services. General and administrative expense increased in 2004 compared to 2003, averaging $2.2 million and $2.9 million per quarter during 2003 and 2004 respectively. General and administrative expense increased during 2004 primarily as a result of increases in headcount and professional services related to Sarbanes-Oxley Act of 2002 compliance efforts. General and administrative expense in 2004 also included a charge of approximately $1.0 million resulting from the resignation of the Company's prior President and Chief Operating Officer. General and administrative expense, excluding this one time charge, increased modestly as a percentage of revenue primarily as a result of the decline in revenues. The Company expects general and administrative expense to remain at approximately 8% of total revenues going into 2005.

Other Income, Net. Other income, net, is related to interest earned on cash equivalents offset by expense incurred on non-warehouse facility borrowings. Other income, net remained at consistently low levels during 2003 and 2004.

COMPARISON OF YEARS ENDED DECEMBER 31, 2003 AND 2004

The following table sets forth the results of operations for the Company and these results expressed as a percentage of total revenues (dollars in thousands):

	Years Ended December 31,	
	2003	2004
Revenues	$ 152,707	$ 135,093
Operating expenses:		
Operations	69,716	66,208
Sales and marketing	41,368	47,617
Technology	8,414	8,824
General and administrative	8,845	11,745
Total operating expenses	128,343	134,394
Income from operations	24,364	699
Other income, net	140	87
Income before taxes	24,504	786
Income taxes	(1,883)	36
Net income	$ 22,621	$ 822
Net income per share:		
Basic	$ 0.37	$ 0.01
Diluted	$ 0.34	$ 0.01
AS A PERCENTAGE OF REVENUES:		
Revenues	100%	100%
Operating expenses:		
Operations	46%	49%
Sales and marketing	27%	35%
Technology	6%	7%
General and administrative	6%	9%
Total operating expenses	84%	99%
Income from operations	16%	1%
Other income, net	0%	0%
Income before taxes	16%	1%
Income taxes	-1%	0%
Net income	15%	1%

REVENUES

Revenues for the year ended December 31, 2004 decreased $17.6 million from $152.7 million for the twelve months ended December 31, 2003 to $135.1 million for the twelve months ended December 31, 2004. This decrease resulted primarily from lower mortgage revenues and the volume-related interest income offset by increases in home equity activity. The decrease in mortgage revenue is primarily associated with a decrease in mortgage refinance activity and tighter competition in the mortgage market that has squeezed both diversified revenues and revenue per loan.

The following table provides the components of revenue shown in thousands:

	Years Ended December 31, 2003	Years Ended December 31, 2004
Mortgage	$ 97,327	$ 63,950
Interest income on mortgage loans	15,477	7,734
Home equity	24,149	42,219
Interest income on home equity loans	2,998	3,939
Auto	11,415	12,161
Closing services	--	3,907
Other	1,341	1,183
Total Revenues	$ 152,707	$ 135,093

The following table summarizes dollar volume of loans closed and sold and the revenue in both dollars and average basis points ("BPS") (dollars in thousands except BPS):

	Years Ended December 31, 2003	Years Ended December 31, 2004
Mortgage		
$ Volume	$ 4,337,841	$ 3,167,696
Revenue	$ 97,327	$ 63,950
BPS	224	202
Home Equity		
$ Volume	$ 908,641	$ 1,358,333
Revenue	$ 24,149	$ 42,219
BPS	266	311
Auto		
$ Volume	$ 685,891	$ 636,326
Revenue	$ 11,415	$ 12,161
BPS	166	191

OPERATING EXPENSES

Total Operating Expenses. Total operating expenses increased $6.1 million from $128.3 million for the twelve months ended December 31, 2003 to $134.4 million for the twelve months ended December 31, 2004. The increase is primarily due to an increase in sales and marketing and general and administrative expenses. Operations expense decreased due to a decrease in mortgage operations expense offset by an increase in home equity operations expense, both of which relate to loan origination volume. Sales and marketing expense increased as a direct result of increased spending in direct response television, direct response mail and online advertising. General and administrative expense increased during 2004 primarily as a result of increases in headcount and professional services and as a result of a one-time charge of approximately $1.0 million related to the resignation of the Company's prior President and Chief Operating Officer.

The following table shows full-time headcount (including temporary and contract employees) by function at the end of each year ended December 31, 2003 and 2004:

	2003	2004
Mortgage	334	299
Home Equity	264	343
Auto	90	100
Closing services	--	23
Sales & Marketing	28	24
Technology	55	69
General & administrative	60	72
Total	831	930

Operations. Operations expense decreased \$3.5 million from \$69.7 million for the twelve months ended December 31, 2003 to \$66.2 million for the twelve months ended December 31, 2004. This decrease is primarily associated with a decrease in mortgage operations offset by an increase in home equity operation, both of which are related to loan origination volume. Operations expense also includes the addition of ECS closing services in 2004. Operations expense as a percentage of revenues increased from 46% in 2003 to 49% in 2004 as a result of a decrease in revenue. Operations headcount increased due primarily to the expansion of the Company's home equity operations to accommodate increasing volumes.

The following table provides detail of the Company’s operations expense classified by the following revenue-related categories (dollars in thousands):

	Years Ended December 31,	
	2003	2004
Mortgage	\$ 34,775	\$ 27,300
Interest expense on mortgage loans	7,427	3,956
Home equity	14,819	21,812
Interest expense on home equity loans	1,724	2,076
Auto	10,971	7,535
Closing services	--	3,529
Other	--	--
Total operations	\$ 69,716	\$ 66,208

Sales and Marketing. Sales and marketing expenses increased \$6.2 million from \$41.4 million for the twelve months ended December 31, 2003 to \$47.6 million for the twelve months ended December 31, 2004. Sales and marketing expenses as a percentage of revenues increased from 27% in 2003 to 35% in 2004. Sales and marketing expense increased as a direct result of increased spending in direct response television, direct response mail and online advertising. The following table provides detail of the Company’s total sales and marketing expenses classified by major types of expense, expressed as a percentage of total sales and marketing expenses:

	Years Ended December 31,	
	2003	2004
Direct Response TV	53%	46%
Direct Response Mail	14%	14%
Online Advertising	17%	27%
Other Advertising	4%	3%
Headcount & Administrative	12%	10%

Technology. Technology expenses remained relatively constant from 2003, increasing a modest \$0.4 million from \$8.4 million for the twelve months ended December 31, 2003 to \$8.8 million for the twelve months ended December 31, 2004. Technology expenses as a percentage of revenues increased slightly due to lower revenue.

General and Administrative. General and administrative expense increased \$2.9 million from \$8.8 million in 2003 to \$11.8 million for 2004. General and administrative expense increased primarily as a result of increases in headcount and professional services related to Sarbanes-Oxley Act of 2002 compliance efforts. General and administrative expense in 2004 also included a charge of approximately $1.0 million resulting from the resignation of the Company's prior President and Chief Operating Officer. General and administrative expense, excluding this one time charge, increased modestly as a percentage of revenue primarily as a result of the decline in revenues.

COMPARISON OF YEARS ENDED DECEMBER 31, 2002 AND 2003

The following table sets forth the results of operations for the Company and these results expressed as a percentage of total revenues (dollars in thousands):

	Years Ended December 31,	
	2002	**2003**
Revenues	$ 103,315	$ 152,707
Operating expenses:		
Operations	52,854	69,716
Sales and marketing	25,365	41,368
Technology	6,336	8,414
General and administrative	7,225	8,845
Total operating expenses	91,780	128,343
Income from operations	11,535	24,364
Other income, net	80	140
Income before taxes	11,615	24,504
Income taxes	(964)	(1,883)
Net income	$ 10,651	$ 22,621
Net income per share:		
Basic	$ 0.18	$ 0.37
Diluted	$ 0.18	$ 0.34
AS A PERCENTAGE OF REVENUES:		
Revenues	100%	100%
Operating expenses:		
Operations	51%	46%
Sales and marketing	25%	27%
Technology	6%	6%
General and administrative	7%	6%
Total operating expenses	89%	84%
Income from operations	11%	16%
Other income, net	0%	0%
Income before taxes	11%	16%
Income taxes	-1%	-1%
Net income	10%	15%

REVENUES

Revenues for the year ended December 31, 2003 increased $49.4 million from $103.3 million for the twelve months ended December 31, 2002 to $152.7 million for the twelve months ended December 31, 2003. This increase resulted primarily from the growth in the number of mortgage and home equity loans closed and sold, as well as the increased revenue per loan earned on these loans. Interest income on self-funded mortgage and home equity loans also increased due to the increased funding volumes.

OPERATING EXPENSES

Total Operating Expenses. Total operating expenses increased $36.5 million from $91.8 million for the twelve months ended December 31, 2002 to $128.3 million for the twelve months ended December 31, 2003. The increase is primarily due to an increase in operations expense, primarily from mortgage and home equity, as well as a significant increase in sales and marketing expenses. Compensation and benefits costs increased as headcount increased by 144 from 688 at December 31, 2002 to 832 at December 31, 2003 to align the Company's infrastructure with increased business demands.

Operations. Operations expense increased $16.8 million from $52.9 million for the twelve months ended December 31, 2002 to $69.7 million for the twelve months ended December 31, 2003. Operations expense as a percentage of revenues decreased in 2003 related to the increase in revenue. Operations headcount increased due to the expansion of the Company's mortgage and home equity operations to accommodate increasing volumes.

Sales and Marketing. Sales and marketing expenses increased $16.0 million from $25.4 million for the twelve months ended December 31, 2002 to $41.4 million for the twelve months ended December 31, 2003. Sales and marketing expenses as a percentage of revenues increased slightly in 2003. The increase in absolute dollars is primarily the result of increased spending in the Company's national television advertising campaign.

Technology. Technology expenses increased $2.1 million from $6.3 million for the twelve months ended December 31, 2002 to $8.4 million for the twelve months ended December 31, 2003. Technology expenses as a percentage of revenues remained constant `in both 2002 and 2003. Technology expenses increased as a function of the increase in actual headcount as well as an increase in professional services.

General and Administrative. General and administrative expenses increased $1.6 million from $7.2 million for the twelve months ended December 31, 2002 to $8.8 million for the twelve months ended December 31, 2003. General and administrative expenses as a percentage of revenues decreased from 7% in 2002 to 6% in 2003. General and administrative expenses increased as a function of the increase in actual headcount as well as an increase in professional services.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., which require the Company to make estimates and assumptions (see Note 1 to the consolidated financial statements). The Company believes that of its significant accounting policies (see Note 2 to the consolidated financial statements), the following may involve a higher degree of judgment and complexity.

Revenue Recognition. The Company's mortgage and home equity revenues are derived from the origination and sale of loans. Mortgage and home equity loans are funded through the Company's warehouse lines of credit and sold to loan purchasers typically within thirty days. Mortgage and home equity loan revenues consist of proceeds in excess of the carrying value of the loan, origination fees less certain direct origination costs and other processing costs. These revenues are recognized at the time the loan is sold. In addition, the Company generates revenues from interest income on mortgage and home equity loans. The revenues realized are based on the loan amount multiplied by the contractual interest rate from the time of funding by the Company through time of sale. These revenues are recognized as earned during the period from funding to sale. Also included in mortgage and home equity loan revenues are amounts recorded in connection with loans sold under a Purchase and Sale Agreement with Greenwich Capital (see "Off-Balance Sheet Arrangements"). These amounts consist of gain on sale from transferred loans, in the form of a retained interest comprised of interest income, net of interest expense, and additional cash flows to be received at the time of settlement with the committed loan purchaser. The Company sells all loans to loan purchasers on a servicing released basis without recourse, subject to certain representations and warranties. Additionally, the Company is responsible for a minimum number of payments to be made on these loans. As such, the Company records reserves as a contra-revenue at the time a loan is sold, based on certain assumptions in anticipation of future losses as a result of current activity.

The Company funds prime auto loans using a line of credit and then sells them either via whole loan sales or to a qualified special purpose entity (QSPE), which was created in July 2002 (see "Off-Balance Sheet Arrangements"). Revenues from sales to the QSPE consist of the estimated future discounted cash flows net of interest, servicing fees and credit losses recorded in the form of the residual interest. Revenues on prime auto loan sales to the QSPE are recognized when the loan is sold to the QSPE. In addition, in exchange for the loans sold, the Company receives cash and a retained interest. A market discount rate has been applied to the asset to account for the present value of the cash flows to be received over the life of the loans. As a result, the retained interest asset is an interest-earning asset, and the difference between the estimated discounted cash flows and the actual cash flows received over time are accreted and included as auto revenue. Effective in the fourth quarter of 2003, the Company adopted Financial Interpretation No. 46(R), "Consolidation of Variable Interest Entities", ("FIN 46(R)"). FIN 46(R) requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The Company had variable interests in its qualified special purposes entity ("QSPE"), which are exempt from the provisions of FIN 46(R). The Company reports the rights and obligations related to the QSPE according to the requirements of Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

In July 2004, the Company began selling a portion of its prime auto loan production to Merrill Lynch Bank USA pursuant to a Purchase and Sale agreement. The revenue on these loans is based on a fee derived from the composition of the loans being sold, and is recognized at time of transfer.

Prior to the third quarter of 2003, sub-prime auto loans were sold to sub-prime auto loan purchasers. The revenue on these loans consisted of the mark-up to the lending partner's loan price or a set origination fee. These revenues were recognized at the time the loan was sold. In the third quarter of 2003, the Company stopped processing and funding sub-prime auto loans and shifted this portion of the business to a referral based system. Loan applications that do not meet the prime auto lending criteria are referred to other sub-prime lenders in exchange for a fee. This fee is recognized as revenue at the time of transfer to the sub-prime lender.

Valuation of derivative instruments. On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, “Accounting for Derivative and Hedging Activities” (“SFAS 133”), as subsequently amended by Statement of Financial Accounting No. 138 and No. 149. In accounting for its derivative financial instruments, SFAS 133 requires an entity to recognize all derivative assets or liabilities in the statement of financial condition and measure those instruments at fair value. The accounting for changes in fair value of the derivative depends on the intended use of the derivative and the resulting designation. An entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use in assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffectiveness of the hedge. These methods must be consistent with the entity’s approach to managing risk. The Company is a party to mortgage rate lock commitments to fund mortgage loans at interest rates previously agreed (locked) by both the Company and the borrower for specified periods of time. When the borrower locks their interest rate, the Company effectively extends a put option to the borrower, whereby the borrower is not obligated to enter into the loan agreement, but the Company must honor the interest rate for the specified time period. Under SFAS 133, qualifying mortgage interest rate locks are derivatives. The Company is exposed to interest rate risk during the accumulation of interest rate lock commitments and loans prior to sale of the underlying loan. The Company utilizes either a best efforts sell forward commitment or a mandatory sell forward commitment to economically hedge the changes in fair value of the loan due to changes in market interest rates. Both best efforts and mandatory sell forward sale commitments are derivatives under SFAS 133. Throughout the lock period the changes in the market value of interest rate lock commitments, best efforts and mandatory forward sale commitments are recorded as unrealized gains and losses and are included in the statement of operations in mortgage revenue.

The Company’s management has made complex judgments in their application of SFAS 133. The judgments include the identification of hedging instruments, hedged items, nature of the risk being hedged, and how the hedging instrument’s effectiveness will be measured. The Company designates forward delivery commitments, where the company intends to deliver the underlying loan into the commitment, as a fair value SFAS 133 hedge at the commitment date. In addition, the Company designates all best efforts sell forward commitments as fair value SFAS 133 hedges for underlying loans at funding date. The Company does not designate mandatory sell forward agreements as SFAS 133 hedges but does utilize them to economically hedge the changes in fair value of rate lock commitments with borrowers for which a best efforts sell forward commitment has not been obtained. The Company did not have a material gain or loss representing the amount of hedge ineffectiveness related to designated SFAS 133 hedges during the three and twelve months ended December 31, 2003 and 2004.

In September 2003, the Company began hedging its interest rate risk on auto loan approvals. When the Company issues an auto loan approval, the Company extends a put option to the borrower, whereby the borrower is not obligated to enter into the loan agreement, but the Company must honor the interest rate for up to a 45-day period.

Under SFAS 133, auto loan approvals are not considered derivatives. However, the company is still exposed to interest rate risk from issuance of approval to loan sale. The Company enters into amortizing swap contracts to economically hedge the interest rate changes in auto loan approvals. These swap contracts are considered derivatives under SFAS 133 and are recorded at fair value. Subsequent changes in the value of outstanding swap contracts are recorded as unrealized gains and losses and included in the statement of operations in auto revenue.

Capitalized software. In 1999, the Company adopted SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, which requires that the Company expense computer software costs as they are incurred in the preliminary project stage. Once the capitalization criteria of the SOP have been met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software and payroll and payroll related costs for employees who are directly associated with and who devote time to the internal-use computer software are capitalized. Capitalized costs are generally amortized over one to three years on a straight-line basis.

Reserves for loan sales. The Company sells loans to loan purchasers on a servicing released basis subject to certain representations and warranties from the Company to the purchaser. As such, the risk of loss or default by the borrower has generally been assumed by these purchasers. However, the Company is generally required by these purchasers to make certain representations relating to borrower creditworthiness, loan documentation and collateral. To the extent that the Company does not comply with such representations, or there are early payment defaults, the Company may be required to repurchase loans or indemnify these purchasers for any losses from borrower defaults. In connection with a majority of its loan sales agreements, the Company is also responsible for a minimum number of payments to be made on each loan, or else the Company may be required to refund the premium paid to it by the loan purchaser. As such, the Company records reserves based on certain assumptions in anticipation of future losses as a result of current sales activity.

Loan loss reserves due to potential violations of representations and warranties are recorded based on a percentage of current month sales. The Company currently calculates this loss rate exposure based on its historical loss rates as well as similar lending portfolios. Once the Company has endured a complete economic cycle, the rate will be adjusted based on actual losses as a percentage of sales volume on a historical basis. Premium repayment reserves, generated through early loan prepayments related to loans sold to loan purchasers, are recorded based on a rate determined by calculating actual prepayments as a percentage of sales on a historical basis applied to current month sales.

Stock-Based Compensation. The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations, and complies with the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation,* as amended by SFAS No. 148, *Accounting For Stock-Based Compensation -- Transition And Disclosure -- An Amendment Of SFAS No. 123*. Under APB No. 25, compensation expense is based on the excess of the estimated fair value of the Company's stock over the exercise price, if any, on the date of grant. Deferred stock-based compensation is then amortized over the vesting period of the option on an accelerated basis using the multiple option approach as defined in paragraph 24 of FIN 28. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and the Emerging Issues Task Force Consensus in Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Non-Employees for Acquiring, or in Conjunction with Selling, Goods or Services*.

Deferred Tax Asset. The Company accounts for income taxes using the liability method in accordance with SFAS No. 109*, Accounting for Income Taxes*. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Management evaluates the recoverability of the deferred tax assets and the level of the valuation allowance. At such time as it is determined that it is more likely than not that the deferred tax asset will be realizable, the valuation allowance will be reduced. The Company's deferred tax asset arises principally from net operating loss carryforward (NOLs). There are significant judgments and estimates involved in projecting the recoverability of the deferred tax asset, particularly with respect to the existence of future taxable income sufficient to realize NOLs. The Company reported its first profitable year in 2002 and was again profitable in 2003. However, the sustained low interest rate environment created favorable operating conditions for the Company. During the fourth quarter of 2003 and the first nine months of 2004, the Company reported a loss from operations, largely as a result in declines in mortgage refinance volume. Management will continue to monitor projections of future taxable income and when it believes realization of the tax benefits associated with the NOLs is more likely than not, management will reduce the valuation allowance by recording a benefit through the income tax provision recorded in the statement of operations. Based upon the Company's performance throughout the coming year it may be possible for management to reduce the valuation allowance during 2005; however, management can provide no assurances as to the amount of such reduction, the period in which it might occur or if it will occur at all.

OFF-BALANCE SHEET ARRANGEMENTS

Retained interest in auto loans. On June 17, 2002, the Company entered into an arrangement to sell auto loan receivables to a qualified special purpose entity (QSPE), E-LOAN Auto Fund One, LLC ("E-LOAN Auto"), for the purpose of being able to recognize the gain on sale from these loans. These transactions involve the Company surrendering control over these assets to assure that the sold assets have been isolated from the Company and its creditors. In accordance with FAS 140 and FIN 46(R) the assets and liabilities of E-LOAN Auto are appropriately not consolidated in financial statements of the Company. In the event that the entity no longer qualifies as a QSPE and is required to be consolidated, the Company would no longer be in compliance with certain debt covenants related to its warehouse and other lines of credit, as currently structured. In particular, the Company's debt to tangible net worth covenants would be exceeded, however management believes that it would be able to renegotiate its existing warehouse related covenants to adequately accommodate the consolidation of this entity, if needed. E-LOAN Auto has obtained a secured borrowing facility from Merrill Lynch Bank USA to finance all purchases of loans from the Company. The Company recognizes a gain on the sale of auto loan receivables to E-LOAN Auto in the period in which the sale occurs, which represents the difference between the sale proceeds to the Company and the Company's net carrying value of the receivables. The Company retains an interest in the future cash flows from the loans. Such cash flows are distributed to the Company by the QSPE monthly. The fair value of the retained interest asset is based upon a discounted cash flow model of the estimated future cash flows to be received by the Company over the life of the loans. These retained interest assets are recorded on the balance sheet at fair value as trading assets, and are adjusted to estimated fair value at each subsequent reporting period. Changes in the estimated fair value of the residual interests are recorded through the statement of operations. Estimates of future cash flows to be received by the Company reflect assumptions regarding the cumulative credit losses to be incurred on the pool of auto loan receivables sold, prepayment rates of the auto loans and the rate at which the estimated future excess cash flows are discounted. The assumptions used represent the Company's best estimates, and the use of different assumptions could produce different financial results. The Company will continue to monitor and update its assumptions over time.

Sale Agreement with Greenwich Capital. The Company has a loan purchase and sale agreement with Greenwich Capital, for the purpose of controlling the timing associated with loan sales. Under the terms of this agreement, mortgage loans which are allocated to a mandatory sell forward commitment between the Company and a loan purchaser, but have not yet been settled, may be sold to Greenwich Capital with the accompanying trade assignment. Revenues, in the form of a retained interest, from loans sold under this arrangement are included as a receivable on the balance sheet. All loans sold under this arrangement are already committed to another loan purchaser, and as such, hold little risk of being unsaleable. Therefore, in the event that the Company was unable to utilize this arrangement, the Company would experience a one-time impact to revenues in the period this arrangement was discontinued.

LIQUIDITY AND CAPITAL RESOURCES

The Company's sources of cash include cash from the sale of mortgage, home equity and auto loans, borrowings under warehouse lines of credit and other credit facilities, brokerage fees, interest income, credit card referrals and the sale of debt and equity securities in both private and public transactions. The Company's uses of cash include the funding of mortgage, home equity and auto loans, repayment of amounts borrowed under warehouse lines of credit, operating expenses, payment of interest, and capital expenditures primarily comprised of furniture, fixtures, computer equipment, software and leasehold improvements. Because the Company's loan origination operating activities are funded principally through its warehouse and other lines payable, the Company analyzes trends in operating cash flows by combining cash flows from operating activities with cash flows from certain financing activities (specifically cash flows from warehouse and other lines payable).

Cash provided by operating activities net of cash used by financing activities related to its warehouse and other lines payable was $26.6 million for the twelve months ended December 31, 2004. Specifically, the Company obtained cash from net income of $0.8 million for the twelve months ended December 31, 2004. In addition, the Company benefited from positive cash flow due to the reduction of other assets in the amount of $9.3 million, specifically prepaid marketing expenses, and the reduction of receivables in connection with loan sales. Further, the Company benefited from positive cash flow as a result of loans held-for-sale net of warehouse payable decreasing which provided $3.8 million in net cash, and the increase of accounts payables and other accrued expenses in the amount of $7.9 million. However, these sources of cash were offset by the continued increase in the retained interest asset, which grew another $2.3 million as additional auto loans were sold to the QSPE in the twelve months ended December 31, 2004.

Cash provided by operating activities, net of cash used in financing activities related to its warehouse and other lines payable was $7.0 million for the twelve months ended December 31, 2003. The Company obtained cash from the net income of $22.6 million for the twelve months ended December 31, 2003. Additionally, the Company benefited from positive cash flow as a result of loans held-for-sale net of warehouse payable decreasing and providing $3.1 million in net cash. However, these sources of cash were offset by two major uses of cash: (1) the receivable related to the Greenwich Sale Agreement increased $14.4 million as more loans were sold under this agreement and at a higher revenue/loan than the comparable period the year before, and (2) the retained interest asset continued to increase, going up another $7.7 million as additional loans were sold to the QSPE in 2003.

Net cash used in investing activities was $12.3 million and $8.7 million for the twelve months ended December 31, 2003 and 2004, respectively. Net cash used during the twelve months ended December 31, 2003 was primarily due to the addition of infrastructure related to increased headcount and investment in new technology systems. In October 2003, the Company began relocating its corporate headquarters and consolidating its operational facilities to a larger, single facility in Pleasanton, California. Capital expenditures related to the new facility were $4.4 million for the twelve months ended December 31, 2004. The remaining cash used on investing activities during the twelve months ended December 31, 2004 was mostly related to capitalized development.

Cash provided by financing activities, net of cash used by its warehouse and other lines payable was $2.9 million and $3.1 million for the twelve months ended December 31, 2003 and 2004, respectively. The increase for both periods presented was primarily due to the issuance of common stock from the exercise of stock options.

The Company has committed and uncommitted warehouse lines of credit that it uses to fund mortgage and home equity loans. A committed line is a firm commitment from the warehouse lender that funds will be available if requested through the specified termination date. The Company pays for these committed funds either in the form of pre-paid commitment fees charged as a percentage of the committed line available, or in the form of an unused line fee, which is assessed monthly based on a percentage of the unused amount during the previous month. Uncommitted funds are available to the Company at the warehouse lenders discretion, and may not be accessible by the Company if the warehouse lender denied the funding request. The Company has not experienced such a denied funding request from any of its current or previous warehouse lenders.

The Company has a warehouse line of credit for borrowings of up to $75 million for the interim financing of mortgage loans with GMAC Mortgage Corporation. The interest rate charged on borrowings against these funds is variable based on LIBOR plus various percentage points. This warehouse line requires the Company to pay GMAC a non-use fee when the average outstanding principal amount of borrowings is less than 50% of the total commitment at a rate of 0.25% per annum on the daily average unutilized commitment. Borrowings are collateralized by the related mortgage loans held-for-sale. The committed line of credit expires on March 31, 2005. Upon expiration, management believes it will either renew its existing line or obtain sufficient additional lines. This line of credit agreement generally requires the Company to comply with various financial and non-financial covenants. In particular, the Company must maintain a minimum cash balance of $15.0 million in addition to the requirement that the Company maintain at least one other committed warehouse facility of no less than $100 million. Failure to comply with these, or any other covenants, could result in the obligation to repay all amounts then outstanding. The Company was in compliance with all covenants for this agreement for twelve months ended and at December 31, 2004.

The Company has an uncommitted warehouse line of credit agreement with Merrill Lynch Mortgage Capital Inc. for borrowings of up to $100 million for the interim financing of mortgage loans. The interest rate charged on borrowings against these funds is variable based on LIBOR plus various percentage points. Borrowings are collateralized by the related mortgage loans held-for-sale. The uncommitted warehouse line of credit expires on February 4, 2006. This line of credit agreement generally requires the Company to comply with various financial and non-financial covenants. In particular, the Company must maintain a minimum unrestricted cash balance of $12.5 million. Failure to comply with these, or any other covenants, could result in the obligation to repay all amounts then outstanding. The Company was in compliance with these covenants during the twelve months ended and at December 31, 2004.

The Company has an agreement to finance up to $500 million of mortgage loan inventory pending sale of these loans to the ultimate mortgage loan purchasers with Greenwich Capital. Of this amount, $200 million is available in committed funds. This loan inventory financing is secured by the related mortgage loans. The interest rate charged on borrowings against these funds is based on LIBOR plus various percentage points. As part of this agreement the Company had to pay a commitment fee of $1.0 million for the period of March 31, 2003 through March 30, 2004. The commitment fee was reduced to $750,000 for the period March 15, 2004 through March 14, 2005. The commitment fee was reduced to $600,000 for the period March 15, 2005 through March 13, 2006. The line expires March 13, 2006. Upon expiration, management believes it will either renew its existing line or obtain sufficient additional lines. This agreement includes various financial and non-financial covenants. In particular, the Company must maintain a minimum cash and cash equivalents balance of $15 million. Additionally, the Company is required to maintain at least one other warehouse facility of no less than $75 million in committed funds. Prior to an amendment in March 2004, the Company was required to maintain a restriction of $2.5 million in cash as additional collateral. Subsequent to the amendment, there is no restriction on cash related to this facility. Failure to comply with these, or any other covenants, could result in the obligation to repay all amounts then outstanding. The Company was in compliance with all covenants for this agreement for the twelve months ended and at December 31, 2004.

The Company has a $10 million line of credit facility with Merrill Lynch Mortgage Capital, Inc. to support the interim funding of auto loans prior to the sale to the ultimate auto loan purchaser. The interest rate charged on this line is based on LIBOR plus various percentage points. This facility requires the Company to pay an unused line fee equal to 0.50% per year on the average daily unused line balance. This facility expires on July 13, 2007. Upon expiration, management believes it will either renew its existing line or obtain sufficient additional lines. This agreement includes various financial and non-financial covenants. In particular, the Company must maintain a minimum cash and cash equivalents balance of $15 million. Additionally, the Company is prohibited from obtaining or incurring any debt or contingent liability in excess of $5 million without prior consent from the lender. Failure to comply with these, or any other covenants, could result in the obligation to repay all amounts then outstanding. The Company was in compliance with all covenants for this agreement for the twelve months ended and at December 31, 2004.

In January 2005, the Company entered into an agreement for a warehouse line of credit for borrowings of up to $150 million for the interim financing of mortgage loans with JPMorgan Chase Bank, N.A.. The interest rate charged on borrowings against these funds is variable based on LIBOR plus various percentage points. Borrowings are collateralized by the related mortgage loans held-for-sale. The committed line of credit expires on January 3, 2006. Upon expiration, management believes it will either renew its existing line or obtain sufficient additional lines. This line of credit agreement generally requires the Company to comply with various financial and non-financial covenants. In particular, the Company must maintain a minimum cash balance of $12.5 million. Failure to comply with these, or any other covenants, could result in the obligation to repay all amounts then outstanding.

The following table summarizes the key terms of our current warehouse and other lines payable:

	GMAC Mortgage $75M	Greenwich Capital $500M	Merrill Lynch $100M	Merrill Lynch $10M	JPMorgan Chase $150M
Cost of Funds					
Spread over LIBOR	1.25%-2.0%	0.75%-1.15%	0.75%-1.0%	1.0%-2.0%	1.0%-1.125%
Covenants					
Minimum Cash	$15.0M	$15.0M	$12.5M	$15.0M (1)	$12.5M (1)
Minimum Tangible Net Worth	$40.0M	$60.0M	$40.0M	$25.0M	$60.0M
Debt to Tangible Net Worth	10:1	10:1	12:1	--	10:1
Profitability	--	--	Net Worth > 80% prior 2 qtrs	--	$1 in 6mos rolling period
Current Ratio	1.0:1.0			1.0:1.0	1.0:1.0
Additional Facility	$100.0M	$75.0M	--	--	--
Advance Rates	95%-100%	96%-99%	96%-99%	92%-97%	95%-98%

(1) Inclusive of all restricted cash, not to exceed $5 million

On June 30, 2003, the Company obtained a $5 million line of credit from Wells Fargo Bank, N.A. to support working capital needs. The interest rate charged on borrowings against these funds is based on LIBOR plus 2% and is payable monthly. The line of credit was originally scheduled to expire on June 30, 2004. However, on December 11, 2003, the agreement was amended to reduce the line of credit to $2,350,000 and extend the expiration date to June 30, 2005. As part of the amendment, the Company was required to provide restricted cash as collateral for this line of credit (see Note 2). Currently, the line of credit is being utilized to support letters of credit related to the Pleasanton, California facility as well as a letter of credit related to the Company's surety bonds. The Company was in compliance with these covenants during the twelve months ended and at December 31, 2004. No balance was outstanding on this line as of December 31, 2003 and December 31, 2004.

The adequacy of our liquidity depends on our ability to successfully generate positive cash flow from an appropriate combination of efficient operations and improvements therein, financing from third parties and access to capital markets. With $52.7 million of cash on hand at December 31, 2004 and borrowing capacity under our warehouse and other lines of credit of $835 million, we believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating cash flow requirements as they occur for at least the next twelve months; however, our ability to maintain positive liquidity going forward depends on our ability to generate cash from operations and access to the financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The following are return on equity and asset ratios for the years ended December 31, 2003 and 2004:

	December 31,	
	2003	**2004**
Return on assets (1)......................	7.7	0.6
Return on equity (2)......................	32.9	1.0
Equity to assets (3)......................	23.3	64.6

(1) Net income divided by average total assets, multiplied by 100.
(2) Net income divided by average equity, multiplied by 100.
(3) Average equity divided by average total assets, multiplied by 100.

FACTORS AFFECTING FUTURE OPERATING RESULTS

The following important factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this report or presented elsewhere by management from time to time.

While we achieved profitability during fiscal years 2002, 2003 and 2004, we had a pre-tax loss in both the fourth quarter of 2003 and the first quarter of 2004 and we may not be able to maintain profitability.

While we achieved profitability during fiscal years 2002, 2003 and 2004, we have an accumulated deficit of $182.8 million, as of December 31, 2004. In the fourth quarter of 2003, we experienced a pre-tax loss of $1.5 million. In the first quarter of 2004 we experienced a pre-tax loss of $1.1 million and in the first nine months of 2004, we experienced a pre-tax loss of $0.2 million. We may not regain or increase profitability on a quarterly or annual basis in the future. If revenues grow more slowly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, our business, results of operations and financial condition will be adversely affected.

We have a limited operating history and consequently face significant risks and challenges in building our business.

We were incorporated in August 1996, initiated our online mortgage operations in June 1997 and acquired our online auto operations in September 1999. We cannot assure that the Company will be able to operate successfully if a downturn in the mortgage or auto business occurs. As a result of our limited operating history, our recent growth and our reporting responsibilities as a public company, we may need to expand operational, financial and administrative systems and control procedures to enable us to further train and manage our employees and coordinate the efforts of our underwriting, accounting, finance, marketing, and operations departments.

Our quarterly financial results are vulnerable to significant fluctuations and seasonality, which could adversely affect our stock price.

Our revenues and operating results may vary significantly from quarter to quarter due to a number of social and economic factors. Certain months or quarters historically experience greater volumes of mortgage and auto loan applications and funded loans. Moreover, the level and direction of interest rates regulate the relative volatility of seasonal loan origination cycles. As a result, we believe that quarter-to-quarter comparisons of our operating results may not be a good indication of our future performance. It is possible that in some future periods our operating results may not meet the expectations of market analysts and investors. In this event, the price of our common stock may fall.

Interest rate fluctuations could significantly reduce customers' incentive to refinance existing mortgage loans.

Rising interest rates generally reduce the demand for mortgage loans. Due to the low interest rate environment for the last several years, a significant percentage of our mortgage customers used our services to refinance existing mortgage loans. As mortgage interest rates have risen, consumers' incentive to refinance has been greatly reduced and the number of refinance loans that we originated and the revenues generated from those loans declined significantly. In an environment of rising or high interest rates relative to the interest rates on existing loans, refinance loan revenue could continue to decline. If we are unable to increase diversified product revenue to offset the decline in refinance loan activity, our business and results of operations may be adversely affected.

Our ability to engage in profitable secondary sales of loans may also be adversely affected by increases in interest rates.

The mortgage loan purchase commitments we obtain are contingent upon our delivery of the relevant loans to the purchasers within specified periods. To the extent that we are unable to deliver the loans within the specified periods and interest rates increase during those periods, we may experience no gain or even a loss on the sale of these loans. In addition, any increase in interest rates will increase the cost of maintaining our warehouse and repurchase lines of credit on which we depend to fund the loans we originate. The interest direct margin earned on loans held-for-sale significantly benefited from the spread between long-term and short-term interest rates starting in 2001 and continuing through the second quarter of 2003. Based on historical trends, we do not expect the same level of benefit from interest rate spreads in a normal market. We have implemented a hedging program to manage the risk of loss due to fluctuations in interest rates, but our hedging efforts may not be successful, and no hedging strategy can completely eliminate interest rate risk. A sharp decrease in interest rates over a short period may cause customers who have interest rates on mortgage loans committed through us to either delay closing their loans or refinance with another lender. If this occurs in significant numbers, it may have an adverse effect on our business or quarterly results of operations.

Our hedging strategy may not succeed in reducing our exposure to losses caused by fluctuations in interest rates.

We attempt to manage our interest rate risk exposure on mortgage loan interest rate locks through hedging transactions using a combination of forward sales of mortgage-backed securities and forward whole-loan sales to fix the sales price of loans we expect to fund. An effective hedging strategy is complex, and we have limited experience administering a hedging program. A successful hedging program depends in part on our ability to properly estimate the number of loans that will actually close and is subject to fluctuations in the prices of mortgage-backed securities, which do not necessarily move in tandem with the prices of loans we originate and close. To the extent that we implement a hedging strategy but are unable to effectively match our purchases and sales of mortgage-backed securities with the sale of the closed loans we have originated, our gains on sales of mortgage loans will be reduced, or we will experience a net loss on those sales. In addition, in September 2003, we began managing our interest rate exposure related to our auto loan approvals by entering into amortizing swap contracts. Approved auto loan applicants are provided a guaranteed rate for up to a 45 day period. To the extent that we implement a hedging strategy but are unable to effectively match our coverage with anticipated loan volume, it is possible that we could experience a net loss on those loan approvals. Finally, if we are unable to obtain the necessary liquidity to execute our hedging programs through multiple hedge counterparties, our hedging strategy may not succeed. We currently have one counter-party for auto hedging and 14 counterparties for mortgage hedging.

Uncertainty with respect to the time it takes to close mortgage loans can lead to unpredictable revenue and profitability.

The time between the date an application for a mortgage loan is received from a customer and the date the loan closes can be lengthy and unpredictable. The loan application and approval process is often delayed due to factors over which we have little or no control, including the timing of the customer's decision to commit to an available interest rate, the close of escrow date for purchase loans, the timeliness of appraisals and the adequacy of the customer's own disclosure documentation. Purchase mortgage loans generally take longer to close than refinance loans as they are tied to the close of the property sale escrow date. This uncertain timetable can have a direct impact on our revenue and profitability for any given period. We may expend substantial funds and resources supporting the loan fulfillment process and never generate revenue from closed loans. Therefore, our results of operations for a particular period may be adversely affected if the mortgage loans applied for during that period do not close in a timely manner or at all.

The increasing number of federal, state and local “anti-predatory lending” laws may restrict our ability to originate certain mortgage loans, or increase our risk of liability or cost of doing business.

The enactment of federal, state and local laws, rules and regulations intended to eliminate so-called “predatory” lending practices impose restrictions on loans on which certain points and fees or the annual percentage rate (“APR”) exceed specified thresholds. Our mortgage loan purchasers and warehouse lenders are willing to buy or finance only a very limited selection of such loans, and these loans are subject to greater risks for actual or perceived non-compliance with such laws, rules and regulations, including demands for indemnification or loan repurchases from our loan purchasers, class action lawsuits, increased defenses to foreclosure of individual loans in default, individual claims for monetary damages, and administrative enforcement actions. The continued enactment of these laws, rules and regulations may prevent us from making certain loans and may cause us to reduce the APR or the points and fees on loans that we do make. In addition, the difficulty of managing the risks presented by these laws, rules and regulations may decrease the availability of warehouse financing and the overall demand for certain subprime loans, making it difficult to fund or sell such loans. The growing number of these laws, rules and regulations may increase our cost of doing business, as we are required to develop systems and procedures to ensure that we do not violate any aspect of these new requirements. Any of the foregoing could adversely affect our business and results of operations.

We have recently experienced significant growth in our business, and if we are unable to manage this growth, our business will be adversely affected.

Over the past two years we have experienced significant growth, which has placed a strain on our resources and will continue to do so in the future. Failure to manage this growth effectively could adversely affect our business. We may not be successful in managing or expanding our operations or maintaining adequate management, financial and operating systems and controls.

Our future success is dependent upon increased acceptance of the internet by consumers and lenders as a medium for lending.

Our success will depend in large part on widespread consumer acceptance of obtaining mortgage and auto loans online. Increased consumer use of the Internet to provide for their lending needs is subject to uncertainty. The development of an online market for mortgage and auto loans has only recently begun, is rapidly evolving and likely will be characterized by an increasing number of market entrants. If consumer acceptance of the Internet as a source for mortgage, home equity and auto loans does not increase, our business, results of operations and financial condition will be adversely affected. A number of factors may inhibit Internet usage by consumers, including privacy and security concerns regarding their personal information. The adoption of online lending requires the acceptance of a new way of conducting business, exchanging information and applying for credit by consumers that have historically relied upon traditional lending methods. As a result, we cannot be sure that we will be able to compete effectively with traditional borrowing and lending methods.

The termination of one or more of our mortgage funding sources would adversely affect our business.

We depend on Greenwich Capital Financial Products, Inc. ("Greenwich Capital"), JPMorgan Chase Bank, N.A. (“JPMorgan Chase”) and Merrill Lynch Mortgage Capital Inc. (“Merrill Lynch”) to finance our mortgage loan activities through the warehouse credit facilities they provide. If any of these warehouse credit facilities becomes unavailable, our business would be adversely affected. Under our agreements with each of these lenders, we make extensive representations, warranties and various operating and financial covenants. A material breach of these representations, warranties or covenants on any of our lines could result in the termination of our agreements and an obligation to repay all amounts outstanding at the time of termination. In the past, we have had to obtain waivers from our warehouse lenders as a result of our failure to comply with covenants regarding the issuance of capital stock, excess asset purchases and our failure to meet financial ratios. More recently, we obtained a waiver from one of our warehouse lenders due to a failure to meet a current ratio covenant for the months ended April 30 and May 31, 2003. Our agreements with Greenwich Capital, JPMorgan Chase, and Merrill Lynch expire on March 13, 2006, January 3, 2006, and February 4, 2006, respectively. Upon expiration of these agreements, management believes it will either renew its existing warehouse credit facilities or obtain sufficient additional credit facilities. However, we cannot assure that these agreements will be renewed or extended past their current expiration dates, and additional sources of funding for our mortgage loans may not be available on favorable terms or at all.

We are primarily dependent on four loan purchasers for most of our home equity business.

For the year ended December 31, 2004, the majority of our home equity loans were purchased by E*TRADE, Wells Fargo Bank, N.A., RFC, and Citicorp, pursuant to Home Equity Loan/Line purchase agreements. If any of these loan purchasers are unable or unwilling to purchase our home equity loans, we may experience delays in our ability to accept or process home equity loan applications until we are able to secure new sources of loan purchasers. Sufficient additional sources of loan purchasers for our home equity loans may not be available on favorable terms or at all.

We are dependent on two loan purchasers for all of our auto loan business.

We currently sell all of our prime auto loans either to Merrill Lynch Bank USA pursuant to a Purchase and Sale agreement or to E-LOAN Auto Fund One, LLC, a qualified special purpose entity (QSPE). The QSPE is dependent on Merrill Lynch Bank USA to provide the necessary financing to continue purchasing loans from us. If Merrill Lynch Bank USA is unable or unwilling to provide continuing financing to the QSPE, additional forms of financing may not be available on favorable terms or at all.

We depend on the timely and competent services of various companies involved in the mortgage process; if these companies fail to timely and competently deliver these services, our business and reputation will be directly and adversely affected.

We rely on other companies to perform services related to the loan underwriting process, including appraisals, credit reporting and title searches. Any interruptions or delays in the provision of these services may cause delays in the processing and closing of loans for our customers. If we are unsuccessful in managing the timely delivery of these services we will likely experience increased customer dissatisfaction and our business and reputation could be adversely affected.

The loss of our relationship with any of our significant providers of automated underwriting would have an adverse effect on our business.

We depend on automated underwriting and other services offered by government sponsored and other mortgage investors, including Fannie Mae and Freddie Mac ("Agencies"), to help ensure that our mortgage services can be offered efficiently and on a timely basis. We currently have an agreement with the Agencies that authorizes our use of their automated underwriting services and enables us to sell qualified first mortgages to these Agencies. We cannot assure that we will remain in good standing with the Agencies or that the Agencies will not terminate our relationship. We expect to continue to process a significant portion of our conforming mortgage loans using the Agencies' systems. Our agreement with the Agencies can be terminated by either party. The termination of our agreements with the Agencies would adversely affect our business by reducing our ability to streamline the mortgage origination process.

Any outages, delays or other difficulties experienced internally or through internet service providers, online service providers or other website operators on which our users depend could adversely affect our business.

Due to the complexities of providing effective and responsive internet based products and services to customers, our information technology business model could experience delays and outages caused by a number of factors. Our IT platform is an integration of complex technologies ranging from proprietary and open source technologies to commercially available licensed technologies from industry leaders such as Cisco Systems, Sun Microsystems and Oracle. Although our IT business systems are designed to minimize downtime in the normal course of business, we cannot assure our service levels can be maintained in all possible disaster scenarios. Moreover, our users depend on Internet service providers, online service providers and other website operators for access to our website. Many Internet users have experienced significant outages in the past, and could experience outages, delays and other difficulties due to component or system failures unrelated to our systems. Any of these problems could adversely affect our business.

Our business will be adversely affected if we are unable to safeguard the security and privacy of our customers' financial data.

Internet usage could decline if any well-publicized compromise of security occurred. We may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by any breaches that occur. We also retain on our premises personal financial documents we receive from prospective borrowers in connection with their loan applications. These documents are highly sensitive and if a third party were to misappropriate our customers' personal information, customers could possibly bring legal claims against us. We cannot assure that our privacy policy will be deemed sufficient by our prospective customers or compliant with any federal or state laws governing privacy, which may be adopted in the future.

While we have implemented a substantial program to comply in a timely manner with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, any failure to comply or any adverse results from the evaluation required under such section is unknown at this time and could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to perform an evaluation of its internal control over financial reporting and have our independent auditors attest to such evaluation. We must implement these requirements for the first time in connection with the preparation of the annual report for the year ended

December 31, 2004. We have been actively preparing for the implementation of this requirement by, among other things, establishing an ongoing program to document, evaluate and test the systems and processes necessary for compliance. Certain deficiencies have been identified in connection with this program which have been or are in the process of being remediated. If we fail to complete our evaluation, including the necessary testing and remediation, on a timely basis and in a satisfactory manner, our independent auditors may be unable to attest on a timely basis to the adequacy of the Company's internal control over financial reporting. While the impact of this is uncertain at this time, it could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate movements significantly impact our volume of closed loans and represent the primary component of market risk to us. In a higher interest rate environment, consumer demand for mortgage loans, particularly refinancing of existing mortgages, declines. Interest rate movements affect the interest income earned on loans held for sale, interest expense on the warehouse lines payable, the value of mortgage loans held for sale and ultimately the gain on sale of mortgage and auto loans.

We attempt to minimize the interest rate risk associated with the time lag between when fixed rate mortgage loans are rate-locked and when they are committed for sale or exchanged in the secondary market, through our hedging activities. Individual mortgage loan risks are aggregated by loan type and stage in the pipeline, and are then matched, based on duration, with the appropriate hedging instrument, thus mitigating basis risk until closing and delivery. We currently hedge our mortgage pipeline through mandatory forward sales of Fannie Mae mortgage-backed securities in addition to both mandatory and best efforts forward loan sale agreements with the ultimate investor. We determine which alternative provides the best execution in the secondary market. In addition, we do not believe our net interest income would be materially affected as a result of concurrent changes in long-term and short-term interest rates due to the short duration of time loans are held on the balance sheet prior to being sold (approximately thirty days). We manage our interest rate exposure related to auto loan approvals by entering into amortizing swap contracts.

We believe that we have implemented a cost-effective hedging program to provide a high level of protection against changes in the market value of rate-lock commitments. However, an effective strategy is complex and no hedging strategy can completely insulate the Company against such changes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements begin on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

As of December 31, 2004, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e)). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at a reasonable level in timely alerting them to material information relating to the Company that is required to be included in the Company's periodic filings with the Securities and Exchange Commission. There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Consistent with the provisions and spirit of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the SEC thereunder, we maintain a process of continuous review of our internal controls to improve and enhance them, with the assistance of both our internal accounting staff and our independent accountants. As part of this review, the Company identified various control deficiencies. While none of the deficiencies individually are considered to be material, in the aggregate when measured against the Company's relatively nominal profits they may be deemed to be material. The Company has remediated or is in the process of remediating each of the deficiencies. Specific remediation efforts have included: improved documentation of policies and procedures, improved supervision review procedures, and enhanced segregation of duties.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, do not expect that the Company's disclosure controls or internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met due to numerous factors, ranging from errors to conscious acts of an individual, or individuals acting together. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of inherent limitations in a cost-effective control system, misstatements due to error and/or fraud may occur and not be detected.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as that term is defined in Exchange Act Rule 13a-15 and 15d-15. The Company is in the process of conducting an evaluation of its internal control over financial reporting based on the framework in the "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company has not yet completed this evaluation and therefore has not included in this Annual Report on Form 10-K its "Management's Annual Report on Internal Control Over Financial Reporting" required by Item 308(a) of Regulation S-K (the "Management's Report") or the related "Attestation Report of its Independent Registered Public Accounting Firm" required by Item 308(b) of Regulation S-K (the "Attestation Report"). Securities Exchange Act Release No. 34-50754, which was issued on November 30, 2004, provides that, subject to certain conditions, issuers may defer filing of these reports this year for up to 45 days after the due date of the related Annual Report on Form 10-K. In accordance with the terms of this Release, the Management's Report and the Attestation Report are not included in this Annual Report on Form 10-K. The Company expects to file an amendment to this Annual Report on Form 10-K no later than April 30, 2005 which will include both of these reports and the related officer certifications, auditor consent and revised disclosure under Item 9A.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The information regarding directors and executive officers appearing under the headings “Nominees,” “Nominating Committee”, “Audit Committee”, “Section 16 (a) Beneficial Ownership Reporting Compliance” and “Family Relationships” of our proxy statement relating to our 2005 Annual Meeting of Stockholders to be held on June 15, 2005 (the “2005 Proxy Statement”) is incorporated into this item by reference.

The Company has adopted a code of ethics that applies to all employees, including its principal executive officer, principal financial officer, principal accounting officer and its Board of Directors. A copy of the code of ethics is available on the Company’s website at www.eloan.com. The registrant intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or a waiver from, a provision of its code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions, by posting such information on its website at the website address set forth above.

The names of the executive officers of the Company and their ages, titles, and biographies as of the date hereof are set forth below:

Christian A. Larsen; age 44; Chairman of the Board.

Mr. Larsen co-founded the Company in August 1996 and has served as its Chairman since March 2001. From June 1999 to February 2005, Mr. Larsen served as the company's Chief Executive Officer. From August 1996 to June 1998 and from January 2004 to June 2004, Mr. Larsen served as President of E-LOAN. Mr. Larsen has been a Director of the Company since its incorporation in August 1996. From October 1992 to August 1996, Mr. Larsen was the President of Palo Alto Funding Group, the mortgage brokerage he co-founded in 1992 and E-LOAN's predecessor company. Prior to business school, Mr. Larsen held positions at Chevron Corporation and NASA Ames Research Center. Mr. Larsen holds an M.B.A. degree from Stanford University and a B.S. degree from San Francisco State University.

Mark E. Lefanowicz; age 48; Chief Executive Officer, President and Director.

Mr. Lefanowicz has served as E-LOAN's Chief Executive Officer since February 2005 and as President since June 2004. From January 2004 to February 2005, Mr. Lefanowicz also served as E-LOAN's Chief Operating Officer. Mr. Lefanowicz has served as a Director of E-LOAN since October 2002. Prior to E-LOAN, Mr. Lefanowicz served as CEO of Bay View Franchise Mortgage Acceptance Co. (BVFMAC). Prior to BVFMAC, Mr. Lefanowicz served as Executive Vice President and Chief Financial Officer at Bay View Capital Corporation, a diversified financial services company headquartered in San Mateo, California and parent company to Bay View Bank. Prior to Bay View Capital, Mr. Lefanowicz served as Chief Financial Officer of Provident Funding Associates, now one of the five largest wholesale residential lenders in the country. Mr. Lefanowicz holds a B.S. degree in Accounting from the University of Wyoming. Having earned his CPA in 1980, he is also a member of AICPA and CACPA.

Matthew Roberts; age 36; Chief Financial Officer and Secretary.

Mr. Roberts has served as Chief Financial Officer and Secretary of E-LOAN since December 2000. From January 1999 to November 2000, Mr. Roberts served as E-LOAN's Vice President of Finance. Prior to E-LOAN, Mr. Roberts served as Corporate Controller of NetDynamics from April 1997 to January 1999 (acquired by Sun Microsystems). From March 1994 to April 1997, Mr. Roberts held senior financial and operational management positions at Berkeley Systems. Mr. Roberts is a certified public accountant and holds a B.S. degree in Accounting from Santa Clara University.

Harold "Pete" Bonnikson; age 50; Vice President of Mortgage Operations.

Mr. Bonnikson has served as Vice President of Mortgage Operations of E-LOAN since January 1999. Prior to E-LOAN, Mr. Bonnikson was with North American Mortgage and its predecessor companies since 1981. Mr. Bonnikson was the Executive Vice President of North American Mortgage from 1993 to 1999. Mr. Bonnikson holds a B.S. degree from California State University at Sacramento.

Geoffrey Halverson; age 61; Vice President of Auto Operations.

Mr. Halverson has served as E-LOAN's Vice President of Auto Operations since May 2003. Prior to E-LOAN, from 1999 until 2002, Mr. Halverson was an Executive Vice President at PeopleFirst.com, a Capital One Company, where he built the operating infrastructure and lending platform for this start up online auto finance lender. From 1996 to 1999, he was the Information Technology Director, Strategic Financial Planning and Activity Based Costing for Ameritech Corporation. In 1994, he founded AutoTRENDS Consulting to provide consulting services to the financial services industry. Mr. Halverson was an Operations Group Manager for Progressive Insurance from 1990 to 1994 and held the position of Vice President of Business Operations and Credit Risk at Security Pacific Auto Finance from 1988 to 1990. Mr. Halverson also served as the Chief Financial Officer of a Tier 2 supplier of injection molded and extruded plastic components for Ford, General Motors and Chrysler. His finance and operational process experience in financial services is substantial and initially was developed at Ford Credit and Ford Motor Company. Mr. Halverson has taught Applied Mathematics and Computer Science at the college level and holds an MBA with concentration in Finance from Northern Illinois University and a B.A. in Mathematics from Lawrence University.

Scott McKinlay; age 53; Vice President and Chief Legal Counsel.

Mr. McKinlay has served as E-LOAN's Vice President and Chief Legal Officer since March 2004. Prior to joining E-LOAN, Mr. McKinlay served as President and Chief Operating Officer of InPro Biotechnology from April 2002 to February 2004. From June 2000 to March 2002, Mr. McKinlay served as Senior Vice President, General Counsel and Secretary of Command Audio Corporation. From July 1993 to September 2000, Mr. McKinlay served as Director, Senior Vice President and General Counsel of First Nationwide Financial Corporation. From April 1991 to July 1993, Mr. McKinlay served as Associate General Counsel of First Nationwide Financial Corporation. From January 1988 to August 1989, Mr. McKinlay served as an Associate at Mayer, Brown & Platt. From August 1989 to April 1991 and from October 1985 to January 1988, Mr. McKinlay served as an Associate at Folger & Levin. Mr. McKinlay holds a J.D. from the University of San Francisco and a B.A. in English Literature from the University of California at Berkeley.

Catherine Muriel; age 50; Chief Marketing Officer.

Ms. Muriel has served as E-LOAN's Chief Marketing Officer since May 2004. From 2002 to 2004, Ms. Muriel served as Chief Marketing Officer of Upromise. From 2000 to 2002, she served as Senior Vice President of AXA Financial. From September 1998 to December 2000, Ms. Muriel served as Departmental Vice President of Customer Management at Prudential Financial. From 1988 to 1998, she served as Vice President and Director of Credit Card Marketing at Citigroup, Inc. Ms. Muriel began her career as an advertising executive at Lowe & Partners Advertising and Kaufman/EPB Advertising. Ms. Muriel holds law degree from the London School of Economics and a liberal arts degree from Guildford College in England.

Sedrick A. Tydus; age 52; Vice President of Home Equity Operations.

Mr. Tydus has served as E-LOAN's Vice President of Home Equity Operations since July 2001. Prior to joining E-LOAN, Mr. Tydus was the Executive Vice President of Premier Banking at Bank of America from November 1998 to November 2000. From March 1998 to November 1998, Mr. Tydus was the Executive Vice President of California Retail Marketing at the Bank of America. From November 1996 to February 1998, Mr. Tydus was the Executive Vice President of Equity Loan Origination at Transamerica Home Loans. From 1990 to 1996, Mr. Tydus was the Executive Vice President of Northern California Retail Bank at Wells Fargo Bank. Mr. Tydus holds an M.B.A. degree from Stanford University and a B.A. degree from Dartmouth College.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the headings “Compensation of Directors,” “Compensation Committee,” “Compensation Committee Interlocks and Insider Participation,” “Compensation Committee Report of the Board of Directors,” “Executive Compensation” and “Performance Graph” of our 2005 Proxy Statement is incorporated into this item by reference (except to the extent allowed by Item 402(a)(8) of Regulation S-K).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing under the heading “Equity Compensation Plan Information” and “Security Ownership of Directors, Officers and Certain Beneficial Owners” of our 2005 Proxy Statement is incorporated into this item by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing under the heading "Certain Relationships and Related Transactions" of our 2005 Proxy Statement is incorporated into this item by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information appearing under the heading “Fees to Independent Registered Public Accounting Firm for Fiscal 2004 and 2003” of our 2005 Proxy Statement is incorporated into this item by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. The following financial statements of E-LOAN, Inc. and its subsidiaries are found in this Annual Report on Form 10-K for the fiscal year ended December 31, 2004:

2. Financial Statement Schedules.

All schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(b) Exhibits

3.1	Restated Certificate of Incorporation of E-LOAN dated July 2, 1999 (3)
3.2	Corrected Certificate of Amendment of Restated Certificate of Incorporation of E-LOAN, Inc. dated March 26, 2001 (4)
3.3	Amended and Restated Bylaws of E-LOAN, Inc. dated March 16, 2001 (4)
3.4	Amendment to Amended and Restated Bylaws of E-LOAN, Inc. dated June 14, 2004 (13)
4.1	Stock Purchase Warrant issued to Greenwich Financial Products Inc. dated February 23, 2001 (4)
10.1	1997 Stock Plan, as amended
10.2	1999 Employee Stock Purchase Plan dated October 25, 1999 (2)
10.3	Form of Indemnification Agreement between the Registrant and each of its directors and officers (1)
10.4	Mortgage Loan Purchase and Sale Agreement with Greenwich Capital Financial Products, Inc. dated September 25, 1998 (1)
10.5	Warehouse Credit Agreement with GMAC Bank dated as of November 1, 2001 (5)
10.6	Master Loan and Security Agreement with Greenwich Capital Financial Products, Inc. dated March 21, 2002 (6)
10.7	Limited Liability Company Agreement of E-LOAN Auto Fund One, LLC, a wholly-owned subsidiary of E-LOAN, Inc. dated May 21, 2002 (7)
10.8	Certificate of Formation of E-LOAN Auto Fund One, LLC, a wholly-owned subsidiary of E-LOAN, Inc., dated May 21, 2002 (7)

10.9 Credit Agreement between E-LOAN Auto Fund One, LLC, E-LOAN, Inc. and Merrill Lynch Bank USA dated as of June 1, 2002 (7)

10.10 Contribution and Sale Agreement between E-LOAN Auto Fund One, LLC and E-LOAN, Inc. dated as of June 1, 2002 (7)

10.11 Indemnification Agreement with Sedrick Tydus dated October 1, 2002 (8)

10.12 Indemnification Agreement with Claus Henrik Lund dated October 1, 2002 (8)

10.13 Indemnification Agreement with Mark E. Lefanowicz dated October 29, 2002 (8)

10.14 Director Agreement with Mark E. Lefanowicz dated October 29, 2002 (8)

10.15 Amendment Number Five to Master Loan and Security Agreement with Greenwich Capital Financial Products, Inc. dated March 31, 2003 (8)

10.16 Indemnification Agreement with Geoff Halverson dated April 14, 2003 (9)

10.17 Sublease with Charles Schwab & Co., Inc. dated June 20, 2003 (10)

10.18 Credit Agreement with Wells Fargo Bank, National Association dated June 30, 2003 (10)+

10.19 Third Amendment to Credit Agreement with E-Loan Auto Fund One LLC and Merrill Lynch Bank USA dated July 14, 2003 (10)

10.20 Master Repurchase Agreement with Merrill Lynch Mortgage Capital, Inc. dated February 6, 2004 (11)

10.21 Separation Agreement and Release of Claims with Joseph J. Kennedy dated January 29, 2004 (11)

10.22 Nineteenth Modification Agreement with GMAC Mortgage Corporation dated February 25, 2004 (11)

10.23 Severance Agreement and Release of Claims with Robert Purcell dated February 25, 2004 (11)

10.24 Indemnification Agreement with Scott D. McKinlay dated April 22, 2004 (12)

10.25 Indemnification Agreement with James Jones dated April 26, 2004 (13)

10.26 Amendment No. 1 to Master Repurchase Agreement with Merrill Lynch Mortgage Capital, Inc. dated May 20, 2004 (13)

10.27 Indemnification Agreement with Dan Springer dated June 14, 2004 (13)

10.28 Fourth Amendment to Credit Agreement with E-Loan Auto Fund One LLC and Merrill Lynch Bank USA dated June 29, 2004 (13)+

10.29 Indemnification Agreement with Susan Catherine Muriel dated July 1, 2004 (13)

10.30 Purchase and Sale Agreement with Merrill Lynch Bank USA dated July 14, 2004 (13)+

10.31 E-LOAN 2004 Executive Bonus Plan (14)

10.32 1/05 Senior Secured Credit Agreement with JPMorgan Chase Bank, N.A. dated January 4, 2005 (15)

10.33 Amendment No. 2 to Master Repurchase Agreement with Merrill Lynch Mortgage Capital, Inc. dated February 4, 2005 (16)

10.34 Amendment Number Fourteen to the Master Loan and Security Agreement with Greenwich Capital Financial Products, Inc. dated March 14, 2005 (17)

21.1 List of Subsidiaries of E-LOAN, Inc.

23.1 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm

31.1 Chief Executive Officer Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002#

31.2 Chief Financial Officer Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002#

32.1 Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002##

32.2 Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002##

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1. Incorporated by reference from the Company's Registration Statement on Form S-1 (No. 333-74945) filed on March 24, 1999, as amended, which Registration Statement became effective June 28, 1999 (File No. 333-74945).

2. Incorporated by reference from the Company's Quarterly Report on Form 10-Q (FQE 09/30/99) filed on November 15, 1999, as amended (File No. 000-25621).

3. Incorporated by reference from the Company's Quarterly Report on Form 10-Q (FQE 09/30/04) filed on November 9, 2004. (File No. 000-25621).

4. Incorporated by reference from the Company's Annual Report on Form 10-K/A (FYE 12/31/00) filed on April 23, 2001 (File No. 000-25621).

5. Incorporated by reference from the Company's Quarterly Report on Form 10-Q (FQE 09/30/01) filed on November 14, 2001 (File No. 000-25621).

6. Incorporated by reference from the Company's Annual Report on Form 10-K (FYE 12/31/01) filed on April 1, 2002 (Filed No. 000-25621).

7. Incorporated by reference from the Company's Quarterly Report on Form 10-Q (FQE 06/30/02) filed on August 14, 2002 (File No. 000-25621).

8. Incorporated by reference from the Company's Annual Report on Form 10-K (FYE 12/31/02) filed on March 31, 2003 (File No. 000-25621).

9. Incorporated by reference from the Company's Quarterly Report on Form 10-Q (FQE 03/31/03) filed on May 15, 2003 (File No. 000-25621).

10. Incorporated by reference from the Company's Quarterly Report on Form 10-Q (FQE 06/30/03) filed on August 13, 2003 (File No. 000-25621).

11. Incorporated by reference from the Company's Annual Report on Form 10-K (FYE 12/31/03) filed on March 12, 2004 (File No. 000-25621).

12. Incorporated by reference from the Company's Quarterly Report on Form 10-Q (FQE 03/31/04) filed on

May 7, 2004 (File No. 000-25621).

13. Incorporated by reference from the Company's Quarterly Report on Form 10-Q (FQE 06/30/04) filed on August 9, 2004 (File No. 000-25621) .

14. Incorporated by reference from the Company's Quarterly Report on Form 10-Q (FQE 9/30/04) filed on November 9, 2004 (File No. 000-25621).

15. Incorporated by reference from the Company's Current Report on Form 8-K filed on January 7, 2005 (File No. 000-25621).

16. Incorporated by reference from the Company's Current Report on Form 8-K filed on February 10, 2005 (File No. 000-25621).

17. Incorporated by reference from the Company's Current Report on Form 8-K filed on March 17, 2005 (File No. 000-25621).

* Confidential Treatment Granted
+ Confidential Treatment Requested
# Filed herewith
Furnished herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

E-LOAN, Inc., a Delaware corporation

By /s/ Matthew Roberts
Matthew Roberts, Chief Financial Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Mark Lefanowicz and Matthew Roberts, and each of them, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting to said attorneys-in-fact, or his substitute or substitutes, the power and authority to perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Christian A. Larsen Christian A. Larsen	Chairman of the Board of Directors	March 25, 2005
/s/ Mark Lefanowicz Mark Lefanowicz	Chief Executive Officer, President and Director	March 25, 2005
/s/ Robert C. Kagle Robert C. Kagle	Director	March 25, 2005
/s/ Wade Randlett Wade Randlett	Director	March 25, 2005
/s/ Claus H. Lund Claus H. Lund	Director	March 25, 2005
/s/ James G. Jones James G. Jones	Director, Audit Committee Chairman	March 25, 2005
/s/ Daniel Springer Daniel Springer	Director	March 25, 2005

E-LOAN, INC.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of E-LOAN, Inc.;

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of E-LOAN, Inc. and its subsidiary at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
March 25, 2005

E-LOAN, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2004
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2003	2004
ASSETS		
Cash and cash equivalents (includes $4,850 and $2,350 of restricted cash)	$ 33,973	$ 55,066
Loans held-for-sale	50,874	17,505
Accounts receivable, prepaids and other assets	28,290	19,014
Fixed assets, net	13,652	15,860
Retained interests in auto loans - trading	11,658	13,954
Total assets	$ 138,447	$ 121,399
LIABILITIES AND STOCKHOLDERS' EQUITY		
Warehouse and other lines payable	$ 44,283	$ 14,735
Accounts payable, accrued expenses and other liabilities	12,550	20,476
Total liabilities	56,833	35,211
Commitments and contingencies (Note 19):		
Stockholders' equity:		
Preferred stock, 5,000,000 $0.001 par value shares authorized at December 31, 2003 and December 31, 2004; 0 shares issued and outstanding at December 31, 2003 and December 31, 2004	--	--
Common stock, 150,000,000 $0.001 par value shares authorized at December 31, 2003 and December 31, 2004; 62,136,790 and 64,427,930 shares issued and outstanding at December 31, 2003 and December 31, 2004	62	64
Additional paid-in capital	265,144	268,894
Accumulated deficit	(183,592)	(182,770)
Total stockholders' equity	81,614	86,188
Total liabilities and stockholders' equity	$ 138,447	$ 121,399

The accompanying notes are an integral part of these financial statements.

E-LOAN, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2002	2003	2004
Revenues (Note 15)	$ 103,315	$ 152,707	$ 135,093
Operating expenses:			
Operations	52,854	69,716	66,208
Sales and marketing	25,365	41,368	47,617
Technology	6,336	8,414	8,824
General and administrative	7,225	8,845	11,745
Total operating expenses	91,780	128,343	134,394
Income from operations	11,535	24,364	699
Other income, net	80	140	87
Income before taxes	11,615	24,504	786
Income taxes	(964)	(1,883)	36
Net income	$ 10,651	$ 22,621	$ 822
Net income per share:			
Basic	$ 0.18	$ 0.37	$ 0.01
Diluted	$ 0.18	$ 0.34	$ 0.01
Weighted-average shares - basic	57,613	60,678	63,078
Weighted-average shares - diluted	60,358	66,037	66,087

The accompanying notes are an integral part of these financial statements.

E-LOAN, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance at December 31, 2001	54,010,151	$ 54	$ 256,578	$ (216,864)	$ 39,768
Common stock issued upon exercise of stock options, net	173,402	--	177	--	177
Issuance of common stock through ESPP	519,912	1	470	--	471
Issuance of common stock through convertible debt, net of issuance costs	4,716,981	4	4,634	--	4,638
Issuance of warrants in relation to line of credit	--	--	335	--	335
Net income	--	--	--	10,651	10,651
Balance at December 31, 2002	59,420,446	59	262,194	(206,213)	56,040
Common stock issued upon exercise of stock options, net	1,810,622	2	1,951	--	1,953
Issuance of common stock through ESPP	905,722	1	999	--	1,000
Net income	--	--	--	22,621	22,621
Balance at December 31, 2003	62,136,790	62	265,144	(183,592)	81,614
Common stock issued upon exercise of stock options, net	1,485,812	1	2,655	--	2,656
Issuance of common stock through ESPP	805,328	1	1,095	--	1,096
Net income	--	--	--	822	822
Balance at December 31, 2004	64,427,930	$ 64	$ 268,894	$ (182,770)	$ 86,188

The accompanying notes are an integral part of these financial statements.

E-LOAN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(IN THOUSANDS)

	2002	2003	2004
Cash flows from operating activities:			
Net income	$ 10,651	$ 22,621	$ 822
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization of fixed assets	4,025	4,929	6,463
Non-cash compensation expense	--	--	636
Changes in operating assets and liabilities:			
Loans held-for-sale	(231,140)	342,512	33,369
Retained interests in auto loans	(3,969)	(7,689)	(2,296)
Accounts receivable, prepaids, deposits and other assets	(2,471)	(16,192)	9,276
Accounts payable, accrued expenses and other payables	4,804	211	7,926
Net cash (used in) provided by operating activities	(218,100)	346,392	56,196
Cash flows from investing activities:			
Acquisition of fixed assets	(4,072)	(12,319)	(8,671)
Net cash used in by investing activities	(4,072)	(12,319)	(8,671)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	621	2,953	3,116
Proceeds from notes payable	--	12,100	--
Repayments of notes payable	--	(12,100)	--
Proceeds from warehouse and other lines payable	4,546,238	4,827,455	4,449,553
Repayments of warehouse and other lines payable	(4,320,739)	(5,166,819)	(4,479,101)
Payments on obligations under capital leases, net	(165)	(10)	--
Net cash (used in) provided by financing activities	225,955	(336,421)	(26,432)
Net increase (decrease) in cash	3,783	(2,348)	21,093
Cash and cash equivalents, beginning of period	32,538	36,321	33,973
Cash and cash equivalents, end of period	$ 36,321	$ 33,973	$ 55,066
Supplemental cash flow information:			
Cash paid for interest	$ 8,856	$ 8,189	$ 5,157
Cash paid for income taxes	$ 27	$ 3,427	$ 23
Non-cash financing activities:			
Conversion of convertible debt into common stock	$ 5,000	$ --	$ --

The accompanying notes are an integral part of these financial statements.

E-LOAN, Inc.
Notes to the Consolidated Financial Statements

1. The Company

E-LOAN, Inc. (the "Company") was incorporated on August 26, 1996 and began marketing its services in June 1997. The Company is a consumer direct lender of first and second mortgage loans, home equity loans and home equity lines of credit and auto loans. The Company operates as a single operating segment.

The Company completed its initial public offering of 4,020,000 shares of its common stock on June 28, 1999, raising $52.3 million, net of underwriting discount. Concurrently, the Company sold 960,061 shares of its common stock for $12.5 million, net of underwriting discount, in a private placement to Forum Holdings, Inc., an investment subsidiary of Group Arnault. The net proceeds of $62.5 million were received on July 2, 1999. Simultaneous with the closing of the initial public offering, all the convertible preferred stock and mandatorily redeemable convertible preferred stock were automatically converted into an aggregate of 20,493,921 shares of common stock. On April 25, 2000, the Company entered into a Securities Purchase Agreement with six institutional investors to sell an aggregate of 10,666,664 shares of common stock at a purchase price of $3.75 per share in a private placement. The aggregate gross proceeds of $40.0 million were received on June 15, 2000. On September 17, 1999, the Company acquired Electronic Vehicle Remarketing, Inc. ("EVRI"), a leading provider of online auto loans. Under the terms of the agreement, the Company issued 2,879,997 shares of common stock to five investors. As a result of the acquisition, the Company recorded $78.0 million in goodwill and $1.4 million of acquired intangible assets, which was amortized on a straight-line basis over a two-year period. This acquisition was accounted for as a purchase transaction.

Reclassification

Certain amounts in the financial statements have been reclassified to conform to the 2004 presentation.

Principles of Consolidation

These consolidated financial statements include the accounts of E-LOAN and its wholly owned subsidiary, Escrow Closing Services, Inc. (“ECS”). ECS was incorporated on February 27, 2003 and began marketing its services in November 2003. All intercompany accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid monetary instruments with an original maturity of three months or less from the date of purchase and documentary drafts, to be cash equivalents. The Company is required to maintain a minimum cash and cash equivalents balance of $15 million related to its warehouse lines. The following summarizes cash and cash equivalents at December 31, 2003 and 2004 (dollars in thousands):

	December 31, 2003	December 31, 2004
Cash	$ 28,179	$ 51,252
Certificates of deposit, unrestricted	75	75
Documentary drafts	869	1,389
Restricted cash	4,850	2,350
	$ 33,973	$ 55,066

Documentary drafts

The Company originates auto loans directly to consumers through the use of a documentary draft process. This process requires the borrower and the seller to provide the Company with a series of supporting documents and vehicle information to complete the loan. For some borrowers, the vehicle also must meet certain model year and loan-to-value restrictions.

Cash is allocated to satisfy documentary drafts presented by borrowers before the required supporting documents are reviewed by the Company to complete the loan. If the required documentation is not provided as agreed to by the borrower and seller, then the allocation of cash is reversed and the cash balance is restored. The Company's documentary draft process allows for at least two business days to process the required supporting documentation prior to determining whether to reverse or honor the original presentment by the seller.

Escrow Deposits

The Company administers escrow deposits as a service to its customers. Escrow deposits totaled $5.8 million and $7.9 million at December 31, 2003 and December 31, 2004, respectively, which were held at third party financial institutions. Escrow deposits are not considered assets of the Company and, therefore, are not included in the accompanying balance sheet. However, the Company remains contingently liable for the disposition of these deposits.

Restricted Cash

In December 2003, the Company renegotiated its line of credit with Wells Fargo Bank, N.A. As part of the amendment, the Company is required to provide restricted cash in the amount of $2.35 million as collateral for this line of credit. This restricted cash is being held in certificates of deposit and is being utilized to support letters of credit related to its Pleasanton, California facility as well as a letter of credit related to the Company’s surety bonds.

In March 2004, the Company renegotiated its warehouse line agreement with Greenwich Capital that required the Company to maintain a restriction of $2.5 million in cash as additional collateral. As part of the amendment, the restriction of this cash was removed.

Derivative instruments

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, “Accounting for Derivative and Hedging Activities” (“SFAS 133”), as subsequently amended by Statements of Financial Accounting No. 138 and No. 149. In accounting for its derivative financial instruments, SFAS 133 requires an entity to recognize all qualifying derivative assets or liabilities in the statement of financial condition and measure those instruments at fair value. The accounting for changes in fair value of the derivative depends on the intended use of the derivative and the resulting designation. An entity that elects to apply hedge accounting is required to establish at the inception of the hedge, the method it will use in assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffectiveness of the hedge. These methods must be consistent with the entity's approach to managing risk. The Company is a party to mortgage rate lock commitments to fund mortgage loans at interest rates previously agreed (locked) by both the Company and the borrower for specified periods of time. When the borrower locks their interest rate, the Company effectively extends a put option to the borrower, whereby the borrower is not obligated to enter into the loan agreement, but the Company must honor the interest rate for the specified time period. Under SFAS 133, qualifying mortgage interest rate locks are derivatives. The Company is exposed to interest rate risk during the accumulation of interest rate lock commitments and loans prior to sale of the underlying loan. The Company utilizes either a best efforts sell forward commitment or a mandatory sell forward commitment to economically hedge the changes in fair value of the loan due to changes in market interest rates. Both best efforts and mandatory sell forward commitments are derivatives under SFAS 133. Throughout the lock period the changes in the market value of interest rate lock commitments, best efforts and mandatory sell forward commitments are recorded as unrealized gains and losses and are included in the statement of operations in mortgage revenue.

The Company's management has made complex judgments in their application of SFAS 133. The judgments include the identification of hedging instruments, hedged items, nature of the risk being hedged, and how the hedging instrument's effectiveness will be measured. The Company designates forward delivery commitments, where the Company intends to deliver the underlying loan into the commitment, as a fair value SFAS 133 hedge at the commitment date. In addition, the Company designates all best efforts sell forward commitments as fair value SFAS 133 hedges for underlying loans at funding date. The Company does not designate mandatory sell forward agreements as SFAS 133 hedges but does utilize them to economically hedge the changes in fair value of rate lock commitments with borrowers for which a best effort sell forward commitment has not been obtained. The Company did not have a material gain or loss representing the amount of hedge ineffectiveness related to designated SFAS 133 hedges during the twelve months ended December 31, 2003 and 2004. The net effect on the Company's income statement from marking to market the locked pipeline and forward commitments was a $0.6 million gain, a $1.9 million loss, and a $0.7 million gain, included in mortgage revenues for the years ended December 31, 2002, 2003 and 2004, respectively.

In September 2003, the Company began hedging its interest rate risk on auto loan approvals. When the Company issues an auto loan approval, the Company extends a put option to the borrower, whereby the borrower is not obligated to enter into the loan agreement, but the Company must honor the interest rate for up to a 45-day period. Under SFAS 133, auto loan approvals are not considered derivatives. However, the company is still exposed to interest rate risk from issuance of approval to loan sale. The Company enters into amortizing swap contracts to economically hedge the interest rate changes in auto loan approvals. These swap contracts are considered derivatives under SFAS 133 and are recorded at fair value. Subsequent changes in the fair value of outstanding swap contracts are recorded as unrealized gains and losses and included in the statement of operations in auto revenue. The effect on the Company's income statement from marking to market these swap contracts was a $75,000 loss and a $87,000 gain included in auto revenues for the years ended December 31, 2003 and 2004, respectively.

Sale of auto loans to qualified special purpose entity

On June 17, 2002, the Company entered into an arrangement to sell auto loan receivables to a qualified special purpose entity ("QSPE"), E-LOAN Auto Fund One, LLC ("E-LOAN Auto"). These transactions involve the Company surrendering control over these assets to assure that the sold assets have been isolated from the Company and its creditors. In accordance with FAS 140 and FIN 46(R), the assets and liabilities of E-LOAN Auto are not consolidated in the financial statements of the Company. E-LOAN Auto has obtained a secured borrowing facility from Merrill Lynch Bank USA to finance all purchases of loans from the Company. The Company recognizes a gain on the sale of auto loan receivables to E-LOAN Auto in the period the sale occurs, which represents the difference between the sale proceeds to the Company and the Company's net carrying value of the receivables. The Company retains an interest in the future cash flows from the loans. Such cash flows are distributed to the Company by the QSPE monthly. The retained interest is recorded on the balance sheet at fair value as a trading asset, and is marked to market at each subsequent reporting period in accordance with Statement of Financial Accounting Standards No, 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). The fair value of the retained interest is based upon a discounted cash flow model of the estimated future cash flows to be received by the Company over the life of the loans. The model entails the use of various assumptions in order to determine the fair value of the estimated future excess cash flows to be generated by the auto loans sold to the QSPE. The most significant assumptions are the cumulative credit losses to be incurred on the pool of auto loan receivables sold, prepayment rates of the auto loans and the rate at which the estimated future excess cash flows are discounted. The assumptions used represent the Company's best estimates, and the use of different assumptions could produce different financial results. The Company will continue to monitor and may update its assumptions over time.

Loans held-for-sale

Mortgage loans held-for-sale consists of residential property mortgages having maturities up to 30 years as well as second mortgages on residential properties. Pursuant to the mortgage terms, the borrowers have pledged the underlying real estate as collateral for the loans. It is the Company's practice to sell these loans to mortgage loan purchasers shortly after they are funded. Mortgage loans held-for-sale are recorded at the lower of cost or aggregate market value. Cost generally consists of loan principal balance adjusted for net deferred origination income and SFAS 133 adjustments (see Note 3). The net deferred origination income is recognized at the time of sale. No valuation adjustment was required at December 31, 2003 or 2004.

Auto loans held-for-sale consists of automobile loans having maturities up to 72 months. Pursuant to the loan terms, the borrowers have pledged the value of the automobile as collateral for the loan. It is the Company's practice to sell these loans shortly after they are funded. Auto loans held-for-sale are recorded at the lower of cost or aggregate market value. No valuation adjustment was required at December 31, 2003 or 2004.

Fixed assets

Fixed assets are recorded at cost and depreciated using the straight-line method over their useful lives, which is generally three years for computers and software and five years for furniture and fixtures. Leasehold improvements are amortized over the remaining life of the lease. Maintenance and repairs are charged to expense as incurred, and improvements and betterments are capitalized. The Company assesses impairment of its fixed assets when there has been an event that might indicate that the undiscounted future cash flows from the asset may not be recoverable. If the estimated undiscounted future cash flows are not sufficient to recover the carrying value of the asset, the carrying value of the asset is written down to its estimated fair value. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period realized.

In 1999, the Company adopted SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, which requires that the Company expense computer software costs as they are incurred in the preliminary project stage. Once the capitalization criteria of the SOP have been met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software and payroll related costs for employees who are directly associated with and who devote time to the internal-use computer software are capitalized. Capitalized costs are generally amortized over one to three years on a straight-line basis. As of December 31, 2003 and 2004, the Company had capitalized approximately $7.7 million and $10.7 million in internally developed software costs of which $4.0 million and $6.0 million had been amortized, respectively. Amortization recorded during the years ended December 31, 2002, 2003 and 2004 amounted to $1.4 million, $1.6 million and $2.0 million, respectively.

Revenue

Mortgage Revenues

The Company's mortgage revenues are derived from the origination and sale of loans. Mortgage loans are funded through the Company’s warehouse lines of credit and sold to mortgage loan purchasers typically within thirty days. Mortgage loan revenues consist of proceeds in excess of the carrying value of the loan, origination fees less certain direct origination costs and other processing fees. These revenues are recognized at the time the loan is sold. The Company sells these loans to loan purchasers on a servicing released basis without recourse, subject to certain representations and warranties. Additionally, the Company is responsible for a minimum number of payments to be made on these loans. As such, the

Company records reserves as a contra-revenue at the time a loan is sold, based on certain assumptions in anticipation of future losses (see Note10).

Interest Income on Mortgage and Home Equity Loans

The Company generates revenues from interest income on mortgage and home equity loans. The revenues realized are based on the loan amount multiplied by the contractual interest rate from the time of funding by the Company through time of sale. These revenues are recognized as earned during the period from funding to sale.

Home Equity Revenues

Home equity revenues are derived from the origination and sale of loans. Home equity loans are funded through the Company's warehouse lines of credit and sold to home equity loan purchasers in approximately forty days from funding. Home equity loan revenues consist of proceeds recorded at settlement in excess of the carrying value of the loan, origination fees less certain direct origination costs and other processing costs. These revenues are recognized at the time the loan is sold. The Company sells these loans to loan purchasers on a servicing released basis without recourse, subject to certain representations and warranties. Additionally, the Company is responsible for a minimum number of payments to be made on these loans. As such, the Company records reserves as a contra-revenue at the time a loan is sold, based on certain assumptions in anticipation of future losses (see Note 10).

Auto Revenues

The Company funds prime auto loans using a line of credit and then sells them either via whole loan sales or to a qualified special purpose entity (QSPE), which was created in July 2002. Revenues from sales to the QSPE consist of the estimated future discounted cash flows net of interest, servicing fees and credit losses. Revenues on prime auto loan sales to the QSPE are recognized when the loan is sold to the QSPE. In addition, in exchange for the loans sold, the Company records a retained interest. A discount rate has been applied to the asset to account for the present value of the cash flows to be received over the life of the loans. The retained interest is an interest-earning asset. The difference between the estimated discounted cash flows and the actual cash flows received over time are accreted and included as auto revenue.

In July 2004, the Company began selling a portion of its prime auto loan production to Merrill Lynch Bank USA pursuant to a Purchase and Sale agreement. The revenue on these loans is based on a fee derived from the composition of the loans being sold, and is recognized at time of transfer.

Prior to the third quarter of 2003, sub-prime auto loans were sold to sub-prime auto loan purchasers. The revenue on these loans consisted of the mark-up to the lending partner's loan price or a set origination fee. These revenues were recognized at the time the loan was sold. In the third quarter of 2003, the Company stopped processing and funding sub-prime auto loans and shifted this portion of the business to a referral based system. Presently loan applications that do not meet the prime auto lending criteria are referred to other sub-prime lenders in exchange for a fee. This fee is recognized as revenue at the time of transfer to the sub-prime lender and paid to the Company monthly for the previous month’s referrals.

Closing Services Revenues

In the fourth quarter of 2003, the Company formed Escrow Closing Services, Inc, a wholly-owned subsidiary, which provides mortgage closing services, including HUD-1 and document preparation and signing, disbursement and recording services for a portion of our home equity business.

Advertising and marketing costs

Advertising and marketing costs related to various media content advertising such as television, direct mail and radio are charged to operating expenses as incurred. These costs include the cost of production as well as the cost of any airtime.

Income taxes

The Company accounts for income taxes using the liability method in accordance with SFAS No. 109*, Accounting for Income Taxes*. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The Company's deferred tax asset arises principally from net operating loss carryforward (NOLs). There are significant judgments and estimates involved in projecting the recoverability of the deferred tax asset, particularly with respect to the existence of future taxable income sufficient to realize NOLs. The Company reported its first profitable year in 2002 and was again profitable in 2003. During most of this period, the sustained low interest rate environment created favorable operating conditions for the Company. However, during the fourth quarter of 2003 and the first nine months of 2004, the Company reported a loss from operations, largely as a result in declines in mortgage refinance volume as mortgage rates increased. Although the Company is projecting profitability for 2005, management will continue to monitor projections of future taxable income and, when it believes realization of the tax benefits associated with the NOLs is more likely than not, management will reduce the valuation allowance by recording a benefit through the income tax provision recorded in the statement of operations. Based upon the Company's performance throughout the coming year it may be possible for management to reduce the valuation allowance during 2005; however, management can provide no assurances as to the amount of such reduction, the period in which it might occur or if it will occur at all.

Stock-based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations, and complies with the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting For Stock-Based Compensation -- Transition And Disclosure -- An Amendment Of SFAS No. 123*. Under APB No. 25, compensation expense is based on the excess of the estimated fair value of the Company's stock over the exercise price, if any, on the date of grant. Deferred stock-based compensation is then amortized over the vesting period of the option on an accelerated basis using the multiple option approach as defined in paragraph 24 of FIN 28. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and the Emerging Issues Task Force Consensus in Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Non-Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. In December, 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) "Share-based Payment" (SFAS 123R) which eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) and generally requires that such transactions be accounted for using a fair value-based method with the resulting compensation cost recognized over the period that the employee is required to provide service in order to receive their compensation. SFAS 123R also amends SFAS No. 95, "Statement of Cash Flows," requiring the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as currently required. The provisions of this statement are effective in the first interim reporting period beginning after June 15, 2005. The impact of the adoption of SFAS 123 is addressed below and the impact of adopting SFAS 123R is not expected to be materially different.

The following pro forma net income (loss) information has been prepared as if the Company had followed the provisions of SFAS No. 123 (in thousands, except per share amounts):

	Years Ended December 31,		
	2002	2003	2004
Net income (loss):			
As reported	$ 10,651	$ 22,621	$ 822
Add: Employee Stock Compensation included in reported net income, net of tax	--	--	636
Less: Stock-based employee compensation expense excluded from reported net income, net of tax	(4,841)	(3,243)	(3,111)
Pro forma	$ 5,810	$ 19,378	$ (1,653)
Basic net income per share:			
As reported	$ 0.18	$ 0.37	$ 0.01
Pro forma	$ 0.10	$ 0.32	$ (0.03)
Diluted net income per share:			
As reported	$ 0.18	$ 0.34	$ 0.01
Pro forma	$ 0.10	$ 0.29	$ (0.03)

Net income (loss) per share

The Company computes net income (loss) per share in accordance with SFAS No. 128, *Earnings per Share*. Under the provisions of SFAS No. 128 basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) available to common stockholders for the period by the weighted average number of common and potential dilutive shares outstanding during the period, to the extent such potential dilutive shares are dilutive. Potential dilutive shares are composed of incremental common shares issuable upon the exercise of stock options and warrants. Anti-dilutive shares in the amounts of 14.1 million, 2.5 million and 4.6 million were excluded from the dilutive shares outstanding for the periods ended December 31, 2002, 2003 and 2004, respectively.

The following table sets forth the computation of diluted net income (loss) per share for the periods indicated (dollars in thousands, except per share amounts):

	Years Ended December 31,		
	2002	2003	2004
Numerator:			
Net income	$ 10,651	$ 22,621	$ 822
Interest expense from convertible note	152	--	--
Net income assuming dilution	$ 10,803	$ 22,621	$ 822
Denominator:			
Weighted average common shares, basic	57,613	60,678	63,078
Effect of potentially dilutive securities:			
Convertible note	1,374	--	--
Warrants	138	697	541
Employee stock option plan	1,233	4,662	2,468
Weighted average number of shares assuming dilution	60,358	66,037	66,087
Diluted net income per share	$ 0.18	$ 0.34	$ 0.01

Comprehensive income

The Company adopted SFAS No. 130, *Reporting Comprehensive Income*, during 1998. The Company classifies items of "other comprehensive income" by their nature in the financial statements and displays the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. To date, the Company has not had any transactions that are required to be reported in other comprehensive income.

Recent Accounting Pronouncements

In January 2003, the FASB issued FIN 46(R), "Consolidation of Variable Interest Entities -- an interpretation of ARB No. 51" ("FIN 46(R)"). The objective of this Interpretation is not to restrict the use of variable interest entities but to improve financial reporting by enterprises involved with variable interest entities. FIN 46(R) states that a business enterprise with a controlling financial interest in a variable interest entity should include the assets, liabilities, and results of the activities of the variable interest entity in consolidated financial statements with those of the business enterprise. FIN 46(R) applied immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of this interpretation has had no effect on the Company's financial statements.

On December 12, 2003, the American Institute of Certified Public Accountants issued Statement of Position No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" (SOP 03-3). SOP 03-3 requires acquired impaired loans for which it is probable that the investor will be unable to collect all contractually required payments receivable to be recorded at the present value of amounts expected to be received and prohibits carrying over or creation of valuation allowances in the initial accounting for these loans. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 31, 2004. SOP 03-3 does not have an impact on the Company's results of operations or financial condition.

In March 2004, Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 105 was issued, which provides guidance regarding loan commitments that are accounted for as derivative instruments under FASB No. 133 (as amended), "Accounting for Derivative Instruments and Hedging Activities". In this Bulletin, the SEC ruled that the amount of the expected servicing rights should not be included when determining the fair value of derivative interest rate lock commitments. This guidance must be applied to rate locks initiated after March 31, 2004. Our previous method used to estimate the fair value of interest rate lock commitments is consistent with SAB No. 105; therefore, SAB No. 105 has had no impact on the Company's financial condition or results of operations.

In March, 2004, the Emerging Issues Task Force (EITF) issued EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-1). EITF 03-1 provides recognition and measurement guidance regarding when impairments of equity and debt securities are considered other-than-temporary thereby requiring a charge to earnings. EITF 03-1 also requires additional annual disclosures for investments in unrealized loss positions. The additional annual disclosure requirements were previously issued by the EITF in November 2003 and were effective for the year ended December 31, 2003. In September 2004, the FASB issued FASB Staff Position (FSP) EITF 03-1-1, which delays the recognition and measurement provisions of EITF 03-1 pending the issuance of further implementation guidance. EITF 03-1 and EITF 03-1-1 does not have an impact on the Company's results of operations or financial condition.

In June 2004, the FASB released EITF 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128" (EITF 03-6). This pronouncement provides guidance on when to apply the two-class method for computing basic and diluted earnings per share for participating securities. A participating security is a security that participates in undistributed earnings with common stock regardless of whether the participation is dependent upon the occurrence of a specific event. EITF 03-6 did not impact the Company's results of operations or financial condition.

In December, 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) “Share-based Payment” (SFAS 123R) which eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees,” (APB 25) and generally requires that such transactions be accounted for using a fair value-based method with the resulting compensation cost recognized over the period that the employee is required to provide service in order to receive their compensation. SFAS 123R also amends SFAS No. 95, “Statement of Cash Flows,” requiring the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as currently required. The provisions of this statement are effective in the first interim reporting period beginning after June 15, 2005. The impact of the adoption of SFAS 123 is addressed above (see stock-based compensation) and the impact of adopting SFAS 123R is not expected to be materially different.

3. Loans Held-for-Sale

The inventory of mortgage and home equity loans consists primarily of first and second trust deed mortgage loans and home equity lines of credit on residential properties located throughout the United States. Also included are amounts disbursed into escrow on a borrower’s behalf where the mortgage documents are signed generally the subsequent day. All mortgage and home equity loans held-for-sale are pledged as collateral for borrowings at December 31, 2003 and 2004 (see Note 9).

The inventory of auto loans consists primarily of loans against new and used automobiles located throughout the United States. All of the auto loans held-for-sale are pledged as collateral for borrowings at December 31, 2004 (see Note 9). The following summarizes loans held-for-sale at December 31, 2003 and 2004 (dollars in thousands):

	December 31, 2003	December 31, 2004
Mortgage	$ 32,811	$ 12,356
Home equity	13,803	2,586
Auto	4,158	2,558
Net deferred origination revenue	102	5
	$ 50,874	$ 17,505

Included in loans held-for-sale is a SFAS 133 fair value adjustment amount of less than $0.1 million and $0.1 million for the years ended December 31, 2003 and 2004, respectively. The basis adjustment amount represents the change in fair value from rate lock commitment date to funding of those loans held-for-sale. The total fair value of loans held-for-sale, including the expected embedded gain on those loans, which would be received at the time of cash settlement, is $51.8 million and $17.8 million at December 31, 2003 and 2004 respectively.

4. Accounts receivable, prepaids and other assets

The following summarizes accounts receivable, prepaids and other assets at December 31, 2003 and 2004 (dollars in thousands):

	December 31, 2003	December 31, 2004
Prepaids	$ 4,574	$ 1,491
Accounts receivable	21,936	15,484
Interest receivable	1,541	1,647
Other assets	239	392
	$ 28,290	$ 19,014

Included in prepaids at December 31, 2003 and December 31, 2004 are prepayments for advertising costs in the amounts of $2.3 million and $0.4 million, respectively. Included in accounts receivable is the retained interest from sales of mortgage loans on its sale agreement with Greenwich Capital Financial Products, Inc. ("Greenwich Capital") in the amounts of $16.2 million and $12.6 million at December 31, 2003 and December 31, 2004, respectively (see Note 9). Sensitivities associated with our retained interest in loans sold under the Greenwich Capital agreement were insignificant at all periods presented due to the short-term nature of the asset (amounts received generally within sixty days or less). Included in other current assets is an amount related to the fair value of SFAS 133 derivatives of $0.1 million and $0.3 million at December 31, 2003 and December 31, 2004, respectively.

5. Significant Customers and Concentrations of Credit Risk

Cash and cash equivalents, including restricted cash totaling $34.0 million and $55.1 million at December 31, 2003 and 2004, respectively, is held by federally insured financial institutions and exceeds existing federal deposit insurance coverage limits at each institution.

Approximately 46% and 42% of all mortgage loans sold during the years ended December 31, 2003 and 2004, respectively, were sold to one mortgage loan purchaser (Wells Fargo Home Mortgage, Inc.) and approximately 86% and 84% of all auto loans sold during the years ended December 31, 2003 and 2004 were sold to one auto loan purchaser (E-Loan Auto Fund One, LLC). Approximately 45% and 30% of all home equity loans in 2003 and 2004 were sold to one purchaser, respectively.

6. Fixed Assets

Fixed assets are recorded at cost and consist of the following (dollars in thousands):

	December 31, 2003	December 31, 2004
Computer equipment and software	$ 20,787	$ 25,567
Furniture and fixtures	1,897	1,215
Equipment and software under capital leases	203	203
Leasehold improvements	7,286	8,687
	30,173	35,672
Accumulated depreciation and amortization	(16,521)	(19,812)
	$ 13,652	$ 15,860

Depreciation and amortization expense for the years ended December 31, 2002, 2003 and 2004 was $4.0 million, $4.9 million, and $6.5 million respectively.

As of December 31, 2003 and 2004, equipment and software under capital leases were fully depreciated. All equipment and software under capital lease served as collateral for the related lease obligations (see Note 18).

7. Retained Interests in Auto Loans

In June 2002, the Company created a qualified special purpose entity, E-Loan Auto Fund One, LLC ("E-Loan Auto"), which purchases prime auto loans from the Company and then holds the loans. For the twelve months ended December 31, 2003 and 2004, the Company sold $515.7 million and $420.1 million in auto loans to E-Loan Auto and recognized $7.0 million and $7.3 million in related non-cash gain on sale. In exchange for the loans sold, the Company received cash of $513.1 million and $418.0 million from E-Loan Auto and a retained interest valued at $11.5 million and $14.0 million in the loans sold to E-Loan Auto. For the year ended December 31, 2004, the average loan characteristics on auto loans sold to E-Loan Auto were $16,000 loan size, 733 credit score, 14% new versus used car, and an average APR of 6.3%. The retained interest represents the Company's portion of the present value of the expected excess cash flows over the life of the loans, remaining after payment of interest, servicing fees and credit losses. Included in the retained interest is a contributed basis in the loans sold to E-Loan Auto of 0.5%. The contributed basis is the difference between the loan amount and the cash sale proceeds received from E-Loan Auto of 99.5% (of the unpaid principal balance), which represents over collateralization in those loans. The contributed basis is returned to the Company as part of the defined distribution of cash flows from E-Loan Auto. Cash flows are to be distributed by E-Loan Auto in the following manner: first to the hedge counterparty, second to the servicer, custodian and administrator, third to the lender for interest expense, fourth to the lender for principal payments, fifth to the Company and the lender any remaining cash flows, to be distributed in accordance with the agreement. The servicing fee is passed through to a sub-servicer of the Company, and as such the Company does not capitalize a servicing asset for the loans sold to E-LOAN Auto, since the cost to sub-service equals the servicing fee.

The following table provides a summary of activity in the retained interests in auto loans since inception:

	2003	2004
Beginning Balance January 1,	$ 3,969	$ 11,658
Contributed basis in loans sold to E-Loan Auto	2,579	2,100
Non-cash gain on sale	6,997	7,249
Accretion of present value discount	1,043	1,422
Excess cash flows received	(2,904)	(8,292)
Fair value adjustment	(26)	(183)
Ending Balance December 31,	$11,658	$13,954

At December 31, 2004, key valuation assumptions used to value the retained interests and the sensitivity of those assumptions to immediate 10% and 25% adverse changes in those assumptions are as follows:

	December 31, 2004 (dollars in thousands)
Balance sheet carrying value of retained interests - fair value	$13,954
Weighted-average life (in months)	47
Prepayment speed assumptions (ABS)	1.45
Impact on fair value of 10% adverse change (1.60)	($173)
Impact on fair value of 25% adverse change (1.82)	($447)
Expected credit losses (life of loan loss rate)	87 bps
Impact on fair value of 10% adverse change (96 bps)	($727)
Impact on fair value of 25% adverse change (109 bps)	($1,783)
Residual cash flows discount rate (average annual rate)	12.0%
Impact on fair value of 10% adverse change (13.2%)	($193)
Impact on fair value of 25% adverse change (15.0%)	($473)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value of the retained interests based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also in the above table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayment speeds but increased credit losses), which might magnify or counteract the sensitivities.

The discount rate was determined by assessing the risk related to the asset to account for the present value of the cash flows to be received over the life of the loans. As a result, the retained interest asset is an interest earning asset, with interest income accreted over time at the discount rate and included in Auto Revenues. The weighted average loss rate is based on actual loss experience to date from the seasoned portions of the portfolio. The prepayment speed projects prepayments on a monthly percentage of the original loan balance. All assumptions are monitored over time and are adjusted to reflect actual performance.

8. Income Taxes

Significant components of the provision for income taxes are as follows (in thousands):

	Years Ended December 31,		
	2002	2003	2004
Federal:			
Current	$ --	$ --	$ --
Deferred	--	--	--
	--	--	--
State:			
Current	1,692	1,183	(36)
Deferred	(728)	700	--
	964	1,883	(36)
Income tax provision	$ 964	$ 1,883	$ (36)

The provision for income taxes was at rates other than the U.S. Federal statutory rate for the following reasons:

	Years Ended December 31,		
	2002	2003	2004
U.S. Federal statutory rate	34.0%	34.0%	34.0%
State taxes	6.1%	4.6%	6.0%
Net operating loss utilization	-32.5%	-30.5%	-41.9%
Other	0.7%	-0.4%	-2.8%
	8.3%	7.7%	-4.7%

At December 31, 2004, the Company had net operating loss carryforwards of approximately $68 million for federal tax purposes and $56 million for state tax purposes. The federal carryforwards expire in the years 2013 through 2021. For federal and state tax purposes, a portion of the Company's net operating loss may be subject to certain limitations on annual utilization in case of changes in ownership, as defined by federal and state tax laws. A state tax provision was required, in substantial part, due to the suspension of California state net operating loss carryforwards that was in effect for both 2002 and 2003. Approximately, $31 million of the net operating loss carryforward will begin expiring in 2006 under California law.

The primary components of temporary differences, which give rise to deferred taxes are as follows (dollars in thousands):

	December 31, 2003	December 31, 2004
Deferred tax assets:		
Net operating loss carryforwards	$ 24,616	$ 26,950
Reserves and accruals	1,238	1,331
Fixed assets	794	(264)
Mark-to-market of securities	(1,029)	(1,292)
Capitalized development costs	(1,511)	(1,878)
Other	242	582
Total deferred tax assets	$ 24,350	$ 25,429

Management evaluates the recoverability of the deferred tax assets and the level of the valuation allowance. Due to the uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has recorded a valuation allowance against its net deferred tax assets at December 31, 2003 and 2004, in the amount of $24.3 million and $25.4 million, respectively. At such time as it is determined that it is more likely than not that the deferred tax asset will be realizable, the valuation allowance will be reduced. Approximately $2.6 million of the benefits related to net operating loss carryforwards indicated above are attributable to stock-based compensation, and will be recognized as an increase to the Company's additional paid-in capital where realized.

9. Warehouse and Other Lines Payable

The Company has a warehouse line of credit with GMAC Mortgage Corporation for borrowings of up to $75 million for the interim financing of mortgage loans. The interest rate charged on borrowings against these funds is variable based on LIBOR plus various percentage points. This warehouse line requires the Company to pay GMAC a non-use fee when the average outstanding principal amount of borrowings is less than 50% of the total commitment at a rate of 0.25% per annum on the daily average unutilized commitment. Borrowings are collateralized by the related mortgage loans held-for-sale. This warehouse line of credit agreement generally requires the Company to comply with various financial and non-financial covenants. In particular, the Company must maintain a minimum cash balance of $15.0 million. The Company was in compliance with these covenants during the twelve months ended and at December 31, 2004. The committed line of credit expires on March 31, 2005.

The Company has an agreement with Greenwich Capital to finance up to $500 million of mortgage loan inventory pending sale of these loans to the ultimate mortgage loan purchasers. Of this amount, $200 million is available in committed funds. This loan inventory financing is secured by the related mortgage loans. The interest rate charged on borrowings against these funds is based on LIBOR plus various percentage points. As part of this agreement the Company had to pay a commitment fee of $1.0 million for the period March 31, 2003 through March 30, 2004. The commitment fee was reduced to $750,000 for the period March 15, 2004 through March 14, 2005. The commitment fee was reduced to $600,000 for the period March 15, 2005 through March 13, 2006. This agreement includes various financial and non-financial covenants. In particular, the Company must maintain a minimum cash and cash equivalents balance of $15 million. Prior to an amendment in March 2004, the Company was required to maintain a restriction of $2.5 million in cash as additional collateral. Subsequent to the amendment, there is no restriction on cash related to this facility. The Company was in compliance with these covenants during the twelve months ended and at December 31, 2004. The line will expire on March 13, 2006.

In addition, the Company has a mortgage loan purchase and sale agreement with Greenwich Capital. Under the terms of this agreement, mortgage loans which are allocated to a mandatory sell forward commitment between the Company and a loan purchaser, but have not yet been settled, may be sold to Greenwich Capital subject to the accompanying trade assignment. Revenue, in the form of a retained interest, derived from sales under this agreement is included as a receivable on the balance sheet until the transaction is settled (see Note 6). The balance of loans sold related to these receivables was $305.1 million and $337.8 million as of December 31, 2003 and December 31, 2004, respectively.

The Company has a $10 million line of credit facility with Merrill Lynch Mortgage Capital, Inc. to support the interim funding of auto loans prior to their sale to the ultimate auto loan purchaser. The interest rate charged on this line is based on LIBOR plus various percentage points. This facility requires the Company to pay an unused line fee equal to 0.50% per year on the average daily unused line balance. This facility expires on July 13, 2007. This line includes various financial and non-financial covenants. The Company was in compliance with these covenants during the twelve months ended and at December 31, 2004.

The Company has an uncommitted warehouse line of credit agreement with Merrill Lynch Mortgage Capital Inc. for borrowings of up to $100 million for the interim financing of mortgage loans. The interest rate charged on borrowings against these funds is variable based on LIBOR plus various percentage points. Borrowings are collateralized by the related mortgage loans held-for-sale. The uncommitted warehouse line of credit expires on February 4, 2006. This line of credit agreement generally requires the Company to comply with various financial and non-financial covenants. In particular, the Company must maintain a minimum unrestricted cash balance of $12.5 million. Failure to comply with these, or any other covenants, could result in the obligation to repay all amounts then outstanding. The Company was in compliance with these covenants during the twelve months ended and at December 31, 2004.

The following summarizes warehouse and other lines payable at December 31, 2003 and 2004 (dollars in thousands):

	December 31,	
	2003	2004
Warehouse lines - GMAC	$ 8,066	$ 210
Warehouse lines - Greenwich	31,462	10,040
Warehouse lines - Merrill (Mortgage)	--	877
Line of credit - Merrill (Auto)	4,755	3,608
	$ 44,283	$ 14,735

10. Accounts Payable, Accrued Expenses and Other Liabilities

The following summarizes accounts payable, accrued expenses and other liabilities at December 31, 2003 and 2004 (dollars in thousands):

	December 31,	
	2003	2004
Accounts payable	$ 5,398	$ 9,421
Accrued compensation	1,987	2,433
Income tax payable	(579)	(21)
Other liabilities	3,011	5,670
Reserves	2,386	2,333
Interest payable	347	640
	$ 12,550	$ 20,476

Included in other liabilities is an amount related to the fair value of SFAS 133 derivatives of $0.9 million and $0.2 million at December 31, 2003 and 2004, respectively.

Included in the accounts payable, accrued expenses and other current liabilities is an amount related to reserves the Company established for representations and warranties and premium repayment liability. The Company sells loans to loan purchasers on a servicing released basis subject to certain representations and warranties from the Company to the purchaser. As such, the risk of loss or default by the borrower has generally been assumed by these purchasers. However, the Company is generally required by these purchasers to make certain representations relating to borrower creditworthiness, loan documentation and collateral. To the extent that the Company does not comply with such representations, or there are early payment defaults, the Company may be required to repurchase loans or indemnify these purchasers for any losses from borrower defaults. In connection with a majority of its loan sale agreements, the Company is also responsible for ensuring that the borrower makes a minimum number of payments to be made on each loan, or else the Company may be required to refund the premium paid to it by the loan purchaser. As such, the Company records reserves based on certain assumptions in anticipation of future losses as a result of current sales activity.

Loss reserves due to breaches of representations and warranties are recorded based on a percentage of current month sales. The Company currently calculates this loss rate exposure based on its historical loss rates as well as similar lending portfolios. Once the Company has endured a complete economic cycle, the rate will be adjusted based on actual losses as a percentage of origination volume on a historical basis. Premium repayment reserves, generated through early loan prepayments related to loans sold to loan purchasers, are recorded based on a rate determined by calculating actual prepayments as a percentage of sales on a historical basis applied to current month sales. The following illustrates the changes in the reserve balances for the years ended December 31, 2002, 2003 and 2004 by product (in thousands):

	Mortgage	Home Equity	Auto	Total
Balance at 1/1/02	$ 369	$ 36	$ 74	$ 479
Increase to reserve	535	294	193	1,022
Losses incurred	(286)	(169)	(146)	(601)
Balance at 12/31/02	$ 618	$ 161	$ 121	$ 900
Balance at 1/1/03	$ 618	$ 161	$ 121	$ 900
Increase to reserve	1,459	1,852	147	3,458
Losses incurred	(768)	(1,047)	(157)	(1,972)
Balance at 12/31/03	$ 1,309	$ 966	$ 111	$ 2,386
Balance at 1/1/04	$ 1,309	$ 966	$ 111	$ 2,386
Increase to reserve	886	1,541	19	2,446
Losses incurred	(1,201)	(1,228)	(70)	(2,499)
Balance at 12/31/04	$ 994	$ 1,279	$ 60	$ 2,333

11. Notes Payable

On June 30, 2003, the Company obtained a $5 million line of credit from Wells Fargo Bank, N.A. to support working capital needs. The interest rate charged on borrowings against these funds is based on LIBOR plus 2% and is payable monthly. The line of credit was originally scheduled to expire on June 30, 2004. However, on December 11, 2003, the agreement was amended to reduce the line of credit to $2,350,000 and extend the expiration date to June 30, 2005. As part of the amendment, the Company was required to provide restricted cash as collateral for this line of credit (see Note 2). Currently, the line of credit is being utilized to support letters of credit related to the Pleasanton, California facility as well as a letter of credit related to the Company's surety bonds. The Company was in compliance with these covenants during the twelve months ended and at December 31, 2004. No balance was outstanding on this line as of December 31, 2003 and December 31, 2004.

12. Stockholders' Equity

Common and preferred stock

As of December 31, 2004, the Company was authorized to issue 150,000,000 shares of common stock and 5,000,000 shares of preferred stock. As of December 31, 2004 the 5,000,000 shares of preferred stock are undesignated.

Warrants

On April 25, 2000, the Company issued two warrants to purchase up to 13.1 million shares of common stock to The Charles Schwab Corporation pursuant to a marketing agreement with Schwab. The total valuation of both of these warrants was determined to be $12.5 million. The assumptions used to value the warrants are addressed in Note 18. The amount was recorded as a contra-equity item called marketing services receivable and was expensed over a one-year term based on the Company's unilateral cancellation right on or before the end of the agreement's first year. The marketing services receivable concluded amortization on June 30, 2001 (see Note 19). On July 12, 2001 the Company exchanged the warrant to purchase 6,600,000 shares at $15 per share for a new warrant to purchase 1,389,000 shares at $5 per share (see Note 19). On June 27, 2003, this warrant was exercised on a net exercise basis and 254,566 shares of common stock were issued to complete the settlement.

In February 2001, the Company issued a warrant to purchase 300,000 shares of common stock to Greenwich Capital in connection with a warehouse agreement at an exercise price of $1.55 per share until February 23, 2006. In July 2003, Greenwich Capital assigned a portion of the warrant to an institutional investor in the amount of 150,000 common shares. At December 31, 2004, both warrants remain outstanding.

In June 2002, the Company issued a warrant to purchase 800,000 shares of common stock to Merrill Lynch Mortgage Capital, Inc. in connection with a line of credit agreement at an exercise price of $1.22 per share until June 1, 2005. At December 31, 2004 this warrant remained outstanding. In January 2005, Merrill exercised the warrant on a net exercise basis and 505,752 shares of common stock were issued to complete the settlement.

13. Employee Benefit Plans

401(k) Savings Plan

The Company has a savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). Under the 401(k) Plan, participating employees may defer a percentage of their eligible pretax earnings up to the Internal Revenue Service's annual contribution limit. All employees of the Company age 18 years or older are eligible to participate in the 401(k) Plan. The Company did not match employee contributions during the years ended December 31, 2002, 2003 or 2004.

Stock Option and Employee Stock Purchase Plans

As of December 31, 2004, the Company had reserved up to 18,898,375 shares of common stock issuable upon exercise of options issued to certain employees, directors, and consultants pursuant to the Company's 1997 Stock Option Plan. Such options were exercisable at fair market value prices established at the date of grant (based on the closing price of the Company's stock on date of grant), and have a term of ten years. Initial optionee grants have a vested interest in 25% of the option shares upon the optionee's completion of one year of service measured from the grant date. The balance will vest in equal successive monthly installments of 1/48 upon the optionee's completion of each of the next 36 months of service. If an option holder ceases to be employed by the Company, vested options held at the date of termination may be exercised within three months. Options under the plan may be either Incentive Stock Options, as defined under Section 422 of the Internal Revenue Code, or Nonstatutory Options. During the years ended December 31, 2002, 2003 and 2004, 1,922,450, 2,205,750, and 3,349,000 options had been granted and at December 31, 2004, 2,723,992 options were still available for grant under the Company's stock option plan.

In March 1999, the Company adopted the 1999 Employee Stock Purchase Plan (the "Purchase Plan") under which 1,500,000 shares of common stock were reserved for issuance. In October 2004, the Purchase Plan was terminated. The Purchase Plan provided for an annual automatic increase in the number of shares of common stock reserved under the Purchase Plan by an amount equal to the lesser of 1,500,000 shares, 2% of the then outstanding shares, or a lesser amount determined by the Company's Board of Directors. Since the initial registration of 1,500,000 shares under the Purchase Plan, an additional 1,068,984 shares were added to the 1999 Purchase Plan by the automatic increase mechanism. Employees who participated in the Purchase Plan were eligible to have up to 15% of their earnings withheld and used to purchase shares of common stock on specified dates as determined by the Board. The price of common stock purchased under the Purchase Plan was equal to 85% of the lower of the fair market value of the common stock, at the commencement date or the ending date of each 24-month offering period. Each offering period included four six-month purchase periods. No compensation expense is recorded in connection with this plan.

Sales under the Purchase Plan for the years ended December 31, 2003 and 2004 were 905,722 and 805,328 shares of common stock at an average price of $1.10 and $1.36, respectively. As of December 31, 2004, due to the termination of the Purchase Plan, all unissued shares were released from reserve and no shares of the Company's common stock remained reserved and available for issuance under this plan.

The following information concerning the Company's stock option plan and employee stock purchase plan was provided in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*. As permitted by SFAS No. 123, the Company accounted for such plans in accordance with APB No. 25 and related interpretations. The fair value of each stock option was estimated on the date of grant using the minimum value and fair value option-pricing models with assuming no expected dividends and the following weighted average assumptions.

	Years Ended December 31,		
	2002	2003	2004
Stock option plan:			
Expected stock price volatility............	90.00 %	67.62 %	58.19 %
Risk-free interest rate..........................	3.86 %	2.97 %	2.76 %
Expected life of options (years)...........	5	3	3
Stock purchase plan:			
Expected stock price volatility............	87.00 %	82.64 %	72.10 %
Risk-free interest rate..........................	2.90 %	2.23 %	1.93 %
Expected life of options (years)...........	2	2	1

As a result of the above assumptions, the weighted average fair value of options granted during the years ending December 31, 2002, 2003 and 2004 was $1.05, $1.64, and $1.08 respectively. The weighted average fair value of stock purchased during the three years ending December 31, 2002, 2003 and 2004 was $0.94, $1.03, and $1.02 respectively.

A summary of the status of the Company's stock option plan and changes during those periods is presented below:

	Number of Shares	Weighted average exercise price
Outstanding as of December 31, 2001......	10,572,959	$ 3.25
Granted..	1,922,450	1.50
Exercised...	(173,402)	1.02
Terminated/forfeited..............................	(848,671)	3.87
Outstanding as of December 31, 2002......	11,473,336	2.95
Granted..	2,205,750	3.50
Exercised...	(1,583,658)	1.34
Terminated/forfeited..............................	(1,511,320)	3.53
Outstanding as of December 31, 2003......	10,584,108	3.22
Granted..	3,349,000	2.58
Exercised...	(1,529,241)	1.40
Terminated/forfeited..............................	(1,523,461)	4.01
Outstanding as of December 31, 2004......	10,880,406	$ 3.17

The following table summarizes information about stock options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercises Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
\$ 0.05 - \$ 1.65	2,745,806	\$ 1.19	6.33	2,318,639	\$ 1.17
\$ 1.67 - \$ 2.19	2,735,209	\$ 2.00	6.19	1,841,535	\$ 1.97
\$ 2.22 - \$ 3.00	2,812,464	\$ 2.66	8.89	587,663	\$ 2.66
\$ 3.04 - \$ 33.00	2,586,927	\$ 7.05	6.86	1,789,328	\$ 8.55
	10,880,406	\$ 3.17	7.08	6,537,165	\$ 3.55

14. Segment and Geographic Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions how to allocate resources and assess performance. The Company's chief decision-maker(s), as defined under SFAS No. 131, are the Chief Executive Officer and the executive team. The Company has determined that it operates in a single reportable operating segment: online consumer direct lending, specializing in mortgage, home equity and auto loans.

All of the Company’s revenues are generated from transactions originating in the United States.

15. Revenues and Other Income, Net

The following table provides the components of revenues (in thousands):

	Years Ended December 31,		
	2002	2003	2004
Revenues:			
Mortgage	\$ 61,212	\$ 97,327	\$ 63,950
Interest income on mortgage loans	15,093	15,477	7,734
Home equity	13,176	24,149	42,219
Interest income on home equity loans	2,379	2,998	3,939
Auto	10,609	11,415	12,161
Closing services	--	--	3,907
Other	846	1,341	1,183
	\$ 103,315	\$ 152,707	\$ 135,093

The following table provides the components of other income, net (in thousands):

	Years Ended December 31,		
	2002	2003	2004
Interest income on short-term investments	$ 240	$ 184	$ 120
Interest expense on non-warehouse facility borrowings	(160)	(44)	(33)
Other	--	--	--
	$ 80	$ 140	$ 87

16. Operating Expenses

The following table provides the components of operating expenses (in thousands):

	Years Ended December 31,		
	2002	2003	2004
Compensation and benefits	$ 39,373	$ 55,641	$ 55,811
Processing costs	9,987	11,407	12,484
Advertising and marketing	20,707	36,649	42,825
Occupancy and administration	11,770	15,098	17,165
Interest expense on warehouse borrowings	9,943	9,548	6,109
Total operating expenses	$ 91,780	$ 128,343	$ 134,394

Commissions and bonus compensation comprised 29%, 25%, and 23% of total compensation and benefits in the years ended December 31, 2002, 2003, and 2004 respectively. Net occupancy costs comprised 12%, 16%, and 21% of total occupancy and administration in the years ended December 31, 2002, 2003, and 2004, respectively.

The following table provides detail of the operations component of total operating expenses classified by the following revenue-related categories (in thousands):

	Years Ended December 31,		
	2002	2003	2004
Mortgage	$ 26,045	$ 34,775	$ 27,300
Interest expense on mortgage loans	7,986	7,427	3,956
Home equity	8,534	14,819	21,811
Interest expense on home equity loans	1,367	1,724	2,077
Auto	8,842	10,971	7,535
Closing services	--	--	3,529
Other	80	--	--
Total operations	$ 52,854	$ 69,716	$ 66,208

17. Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Fair value estimates are subjective in nature and involve uncertainties and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value of loans held-for-sale includes the expected gain on those loans upon sale to the loan purchaser (see Note 3). The carrying value of the Company's other financial instruments, including cash and cash equivalents, accounts receivable, derivatives, warehouse lines, and all other financial assets and liabilities approximate their fair value because of the short-term maturity of those instruments or because they carry interest rates which approximate market.

18. Commitments and Contingencies

Leases

The Company leases office space under an operating leases, which expires June 2010. Rent expense under operating leases amounted to $1.5 million, $2.4 million, and $3.0 million for the years ended December 31, 2002, 2003 and 2004, respectively. The Company's lease obligations under operating leases are as follows (in thousands):

Years Ending December 31,	
2005	$ 2,658
2006	2,658
2007	2,658
2008	2,658
2009 and thereafter	3,987
Total minimum lease payments	$ 14,619

The Company had no capital lease obligations outstanding as of December 31, 2004.

Line of Credit

The Company has an available line of credit in the amount $2,350,000. The Company is required to provide restricted cash as collateral for this line of credit (see Note 2). Currently, the line of credit is being utilized to support letters of credit related to the Pleasanton, California facility as well as a letter of credit related to the Company's surety bonds.

Legal

The Company has been named as a defendant in five related lawsuits filed in the Federal District Court for the Southern District of New York between August 10, 2001 and September 25, 2001. The lawsuits purport to be class actions filed on behalf of the plaintiffs and others similarly situated. They name as defendants E-LOAN, Christian Larsen, Janina Pawlowski, Frank Siskowski, The Goldman Sachs Group, Inc., FleetBoston Robertson Stephens, Inc., Merrill Lynch Pierce Fenner & Smith, Inc., Credit Suisse First Boston Corp. and J.P. Morgan Chase & Co., some of which were involved in the Company's initial public offering. The complaints have since been consolidated into a single action. The Consolidated Amended Complaint alleges, among other things, that the underwriters of the Company's initial public offering violated Section 12(a) of the Securities Act of 1933 by receiving excessive and undisclosed commissions and fees, and by entering into unlawful private agreements with brokers' customers, and that all defendants violated Section 11 of the Securities Act of 1933, and Section 10(b) and Rule 10b-5 under the Securities Exchange Act of 1934 by making material false and misleading statements in the Company's initial public offering prospectus concerning brokers' commissions and private agreements with brokers' customers. The plaintiffs seek to recover damages on behalf of all those who purchased or otherwise acquired E-LOAN securities during the respective class period. Similar complaints have been filed against over 300 other issuers that have had initial public offerings since 1998 and all such actions have been included in a single coordinated proceeding. On October 9, 2002, the Company's individual defendants were dismissed, without prejudice, from the lawsuit, pursuant to a stipulated agreement with the plaintiffs.

On June 25, 2003, a committee of the Company's Board of Directors conditionally approved a proposed partial settlement with the plaintiffs in this matter. The settlement would provide, among other things, a release of the Company and of the individual defendants for the conduct alleged in the action to be wrongful in the Amended Complaint. The Company would agree to undertake other responsibilities under the partial settlement, including agreeing to assign away, not assert, or release certain potential claims the Company may have against its underwriters. Any direct financial impact of the proposed settlement is expected to be borne by the Company's insurers. The committee agreed to approve the settlement subject to a number of conditions, including the participation of a substantial number of other Issuer Defendants in the proposed settlement, the consent of the Company's insurers to the settlement, and the completion of acceptable final settlement documentation.

In June 2004, an agreement of settlement was submitted to the court for preliminary approval. The court granted the preliminary approval motion on February 15, 2005, subject to certain modifications. The parties are directed to report back to the court regarding the modifications. If the parties are able to agree upon the required modifications, and such modifications are acceptable to the court, notice will be given to all class members of the settlement, a "fairness" hearing will be held and if the court determines that the settlement is fair to the class members, the settlement will be approved. Due to the inherent uncertainties of litigation, and because the settlement approval process is at a preliminary stage, the ultimate outcome of the matter cannot be predicted.

On March 1, 2005, Thomas A. Murray filed a complaint against the Company in the U.S. District Court for the Northern District of Illinois, Eastern Division, as case no. 05C-1219. The complaint alleges that the Company violated the federal Fair Credit Reporting Act in connection with a direct mailing sent to Mr. Murray. The complaint seeks damages in an unspecified amount, attorneys' fees, litigation expenses and costs of suit. The complaint purports to be a class action filed on behalf of all persons with Illinois addresses who received the mailing. The Company has not yet filed a response to the complaint. Seven similar complaints were recently filed in the district court against other parties, and on March 17, 2005 the district court denied the plaintiff's motion to reassign the cases to the judge who was presiding over a similar case that was filed in 2002. The case is pending. Due to the inherent uncertainties of litigation, the ultimate outcome of this matter cannot be predicted.

Both cases discussed above have been considered in light of Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies", and no litigation reserves were deemed necessary.

The Company is subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's results of operations, financial position or liquidity.

Mortgage bankers' blanket bond

As of December 31, 2004, the Company carried a mortgage bankers' blanket bond and errors and omissions insurance coverage for $5.0 million. The premiums for the bond and insurance coverage are paid through September 2005.

Marketing Commitments

The Company has entered into fixed contracts to purchase national television spots through the third quarter of 2004. The Company pays for this media in monthly installments, generally thirty days in advance of the scheduled start date of the media. Future minimum payments under these contracts amount to approximately $6.4 million for 2004.

Loan commitments and hedging activities

The Company originates mortgage loans and sells them primarily through whole loan sales. The market values of mortgage loans are sensitive to changes in market interest rates and product demand. If interest rates rise between the time the Company enters into a rate lock with the borrower, the subsequent funding of the loan and the time the mortgage loans are committed for sale, there may be a decline in the market value of the mortgage loans. To protect against such possible declines, the Company has adopted an appropriate economic hedging strategy.

Individual mortgage loan risks are aggregated by loan type and pipeline production status and matched, based on estimated duration, with the appropriate hedging instrument, thus attempting to mitigate interest rate risk until closing and delivery. The Company currently hedges its mortgage pipeline through mandatory forward sales of Fannie Mae and Freddie Mac mortgage-backed securities and both mandatory and best efforts forward sale agreements with the ultimate loan purchaser. The Company determines which alternative provides the best execution in the secondary market at the time of commitment.

The Company believes that it has implemented a cost-effective economic hedging program to provide a high level of protection against subsequent changes in the market value of rate-lock commitments. However, an effective hedging strategy is complex and no hedging strategy can completely insulate the Company against such changes.

At December 31, 2004, the Company had extended locks to originate mortgage and home equity loans amounting to approximately $216.6 million (the "locked pipeline"). At December 31, 2004, the Company had entered into best efforts forward loan sale agreements amounting to approximately $38.5 million. These forward loan sale agreements do not subject the Company to mandatory delivery and there is no penalty if the Company does not deliver into the commitment. The Company is exposed to counterparty risk. However, it is the Company's policy and practice to use well-established U.S. financial institutions to mitigate that risk; the Company does not require collateral to support these commitments, and there has been no failure on the part of the counterparties to meet the terms of these agreements to date.

At December 31, 2004, the Company had entered into mandatory sell forward commitments amounting to approximately $80.2 million. The Company adjusts the amount of mandatory sell forward commitments held to offset changes in the locked pipeline and changes in the market value of unsold loans. At December 31, 2004, the Company had entered into $7.1 million of commitments with loan purchasers to deliver loans related to funded loans held-for-sale.

The Company issues auto loan approvals on its prime loan production. Approved auto loan applicants are provided a guaranteed rate for up to a 45-day period. At December 31, 2004, the Company had entered into amortizing swap contracts in the amount of $18.3 million, as an economic hedge of anticipated funded loans from auto loan approvals.

19. Related Party Transactions

Contribution to Californians for Privacy Now

During 2003, the Company contributed approximately $600,000 to Californians for Privacy Now, a Recipient Committee advocating enhancement of consumer financial privacy rights. The contribution was authorized by the Company's Board of Directors, after a determination that the promotion and enhancement of consumer financial privacy rights is in the best interests of the Company. Christian A. Larsen served as the Treasurer of Californians for Privacy Now from July 2, 2002 until June 28, 2003, when he relinquished his title as Treasurer and became Executive Director of the Recipient Committee.

Agreements With The Charles Schwab Corporation

Common Stock Purchase

On April 25, 2000, the Company sold 2,666,666 shares of its common stock to The Charles Schwab Corporation (Schwab) at a purchase price of $3.75 per share. The sale was part of a $40 million private placement sale of the Company's common stock. Following the purchase of shares, Schwab beneficially owned approximately 5% of the Company's outstanding shares of common stock.

Marketing Agreement

On April 25, 2000, the Company entered into a four-year Marketing Agreement with Schwab to become the exclusive provider of mortgage loans to the Schwab customer base through a co-branded website at http://schwab.eloan.com. In consideration, the Company agreed to pay Schwab cash marketing fee payments and to issue to Schwab warrants to purchase shares of its common stock. This agreement was terminated in November 2002. As part of the Marketing Agreement, Daniel O. Leemon, a member of Schwab's management committee, was nominated to the Company's board of directors and served until October 2002.

The Company recorded revenue earned from the sale of loans attributable to the marketing agreement of $7,485,000, $0, and $0 for the twelve months ended December 31, 2002, 2003 and 2004, respectively. The volume of loans associated with the above revenue was $349.5 million for the twelve months ended December 31, 2002.

Cash Marketing Costs

The original marketing agreement mentioned above stipulated that Schwab would receive cash marketing fees in the amount of $929,000, $3,547,000, $11,100,000 and $13,284,000 for each of the four years of the agreement, respectively. The escalating payments correlated to the anticipated future benefit from the marketing agreement as of April 2000. Through an amendment to the agreement, the Company obtained a unilateral right to cancel the agreement on or before June 30, 2001, which if exercised, no marketing fees would be owed for years 2 through 4 of the agreement. Also as an amendment to the agreement, the first year payment of $929,000 was reduced to $779,000. Based on the Company's ability to cancel, the first year's cash marketing fee payment of $779,000 was amortized ratably over the first year of the agreement.

Through a series of subsequent amendments, the marketing fees payable to Schwab were reduced to better match the then anticipated future benefit from the marketing agreement. The Company recorded cash marketing costs of $972,000, $0, and $0 for the twelve months ended December 31, 2002, 2003 and 2004, respectively.

In addition to marketing fees paid to Schwab, the Company incurred other advertising expense directed toward the Schwab customer base known as co-op marketing costs. The co-op marketing costs covered such items as direct mail pieces sent to Schwab customers. There was no minimum co-op marketing expense required under the agreement. The co-op marketing costs were a pass through of expenses and did not represent revenue for Schwab. The Company recorded co-op marketing costs of $91,000, $0, and $0 for the twelve months ended December 31, 2002, 2003 and 2004, respectively.

Non-cash Marketing Costs

In addition to the cash compensation under the Marketing Agreement, the Company issued two warrants to purchase 13.1 million shares of common stock to Schwab. The first warrant to purchase 6,500,000 shares of common stock at an exercise price of $3.75, had a three-year term and expired on April 25, 2003, unexercised. Half of the 6,500,000 shares under the warrant were exercisable following the one year anniversary of the date of grant, and all of the shares were exercisable following the two year anniversary, if immediately prior to exercise the Company's stock had traded at $5.75 for five consecutive days. Once exercised, the shares would have been subject to a one-year holding period before they were saleable. The second warrant to purchase 6,600,000 shares of common stock at an exercise price of $15.00, had a three and a quarter year term and an expiration date of July 25, 2003. The second warrant did not contain the same restrictions included in the first warrant, and was net exercised by Schwab on June 27, 2003 for 254,566 shares of common stock. The warrants were not subject to cancellation when the Marketing Agreement was terminated. The average of the high and low price of the Company's common stock as reported by the Nasdaq National Market on April 24, 2000 (prior to date of issuance), and April 25, 2000 (the date of issuance of the warrants and the public announcement of the agreement) was $4.16 and $7.60 per share, respectively. Following the issuance of the warrants on April 25, 2000 (and shares acquired in the private placement), Schwab beneficially owned approximately 16% of the Company's outstanding shares of common stock. Beneficial ownership includes shares directly held and those issuable under warrants that are exercisable within sixty days of April 25, 2000, regardless of whether the warrant exercise price is less that the market price.

The total valuation of both of these warrants was determined to be $12,460,000. The first warrant was valued using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 6.0%, term of three years and volatility of 80%. The second warrant was also valued using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 6.0%, term of three and 1/4 years and volatility of 70%. The difference between the total valuation of the warrants and the Black-Scholes option pricing model output is primarily attributable to discounts relating to both the dilution impact from the potential issuance of the shares of common stock underlying the warrants and the restrictions upon the exercise of the first warrant and the ability to sell the shares issuable upon exercise of that warrant. The total valuation was recorded as a contra-equity item called marketing services receivable and was expensed over a one-year term, consistent with the treatment of the first year cash payment due to the unilateral cancellation right. The Company recorded $6.0 million in non-cash marketing costs in the year ended December 31, 2001 related to the issuance of these warrants. As of December 31, 2001, the warrants were fully amortized.

Convertible Debt

On July 12, 2001, the Company sold a $5 million convertible note to The Charles Schwab Corporation, which was convertible into shares of its common stock at a conversion price of $1.06 per share and which was scheduled to mature on January 19, 2003. The Company issued the note for general corporate purposes and in order to obtain adequate excess cash reserves above its minimum cash covenant requirements under its warehouse lines of credit. As the convertible feature was issuable in the Company's stock, no value was ascribed to the convertible feature of the note at the time it was issued (in accordance with APB 14 and SFAS 133). The convertible note bore interest at a rate of 8% per annum and was payable quarterly. Schwab beneficially owned approximately 19% of the Company's outstanding shares at the time the note was issued on July 12, 2001 (after giving effect to the warrant exchange described below). Beneficial ownership includes shares directly held and those issuable under warrants that are exercisable within sixty days of July 12, 2001, regardless of whether the warrant exercise price is less than the market price. Schwab received a total of $183,000 and $113,000 in interest payments on this note for the years ended December 31, 2001 and 2002, respectively.

On April 12, 2002, Schwab exercised its option to convert the amount due under the $5 million convertible note into 4,716,981 shares of the Company's common stock, in lieu of repayment, and therefore the note was converted rather than redeemed. Following conversion of the convertible note on April 12, 2002, Schwab beneficially owned 15,272,647 shares of our common stock which equaled approximately 23% of our total outstanding shares of common stock. Beneficial ownership includes shares directly held and those issuable under warrants that are exercisable within sixty days of April 12, 2002, regardless of whether the warrants exercise price is less than the market price.

Warrant Exchange

On July 12, 2001, the Company issued a $5.0 million convertible note to Schwab, convertible into shares of the Company's common stock at a conversion price of $1.06 per share. In order to facilitate Schwab's purchase of the convertible debt and to meet its requirement that its fully diluted percent ownership in the Company be less than 25%, on July 12, 2001 Schwab surrendered its warrant to purchase 6,600,000 shares of common stock at an exercise price of $15.00 ("surrendered warrant") and the Company issued Schwab a new warrant to purchase 1,389,000 shares of common stock at an exercise price of $5.00 and with an expiration date of July 25, 2003 ("exchange warrant"). At the time of the exchange, the Company determined the value of the surrendered warrant and the exchange warrant to be of equal value (approximately $240,000). The surrendered warrant was valued using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.95%, remaining term of 2 years and volatility of 98%. The exchange warrant was also valued using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.95%, remaining term of 2 years and volatility of 98%. The difference between the valuation of each warrant and its respective Black-Scholes option pricing model output is primarily attributable to discounts which were applied to reflect liquidity and dilution. A liquidity discount was applied to both warrants to estimate the discount to market that would be required for the holder to try and recognize the value through open market sales. A second discount was applied to the surrendered warrant to reflect the dilution impact from the potential issuance of the shares of common stock underlying the warrant. This dilution discount was not applied to the exchange warrant because of the smaller number of shares it represented. In valuing the surrendered warrant as part of the warrant exchange, we updated assumptions that change over time (e.g. risk-free interest rate, volatility, remaining term of set expiration date) from those used in its original valuation in April 2000. As each warrant was determined to be of approximate equal value, no additional value was recorded at the time of exchange. The Company incurred additional costs related to legal, accounting and filing fees to register the shares underlying the exchange warrant. The Company derived a benefit in the warrant exchange, since the exchange enabled Schwab to participate in the convertible note issuance. As a result of the exchange, Schwab reduced the number of shares it was entitled to purchase, but increased the likelihood that at some point in the future the exercise price would be less than the market price of the Company's common stock. The exchange warrant was net exercised by Schwab on June 27, 2003, for 254,566 shares of common stock. The average of the high and low price of the Company's common stock as reported by the Nasdaq National Market on July 12, 2001 (the date of issuance of the exchange warrant) was $1.02 per share.

Loans with Executive Officers and Directors

Under Section 402 of the Sarbanes-Oxley Act of 2002, certain extensions of credit to directors and executive officers of publicly traded and reporting companies are prohibited effective July 30, 2002. Personal loans in existence prior to July 30, 2002 may continue in effect, provided there is no material modification to any term or renewal of such loan. However, the Act provides an exception for consumer credit loans that are (i) made or provided in the ordinary course of the consumer credit business of the issuer, (ii) of a type that is generally made available by such issuer to public, and (iii) made by such issuer on market terms, or terms that are no more favorable than those offered by the issuer to the general public for such extensions of credit.

The Company, like many financial institutions, has followed a policy of granting mortgage, home equity and auto loans to its directors and executive officers and members of their immediate families in the ordinary course of the Company's business. During the fiscal year ended December 31, 2004, the Company did not grant loans to any of its executive officers and directors. At the end of the fiscal year ended December 31, 2004, no loans from any such persons were held by the Company.

20. Risks and Uncertainties

The Company has a limited operating history and its prospects are subject to the risks, expenses and uncertainties frequently encountered by companies in the new and rapidly evolving markets for internet products and services. These risks include the failure to develop and extend the Company's online service brands, the rejection of the Company's services by consumers, vendors and/or advertisers, the inability of the Company to maintain and increase the levels of traffic on its online services, as well as other risks and uncertainties.

Additionally, in the normal course of business, companies in the mortgage banking and auto finance industries encounter certain economic and regulatory risks. Economic risks include interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the extent that in a rising interest rate environment, the Company will generally experience a decrease in loan production, which may negatively impact the Company's operations. Credit risk is the risk of default, primarily in the Company's loan portfolio that result from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans held-for-sale and in commitments to originate loans. Regulatory risks include administrative enforcement actions and/or civil or criminal liability resulting from the Company's failure to comply with the laws and regulations applicable to the Company's business.

The Company depends on three warehouse credit facilities to finance the mortgage loan inventory pending ultimate sale to mortgage loan investors. The warehouse credit facilities include both committed and uncommitted lines of credit. The Company also has a line of credit to finance the auto loan inventory pending ultimate sale to auto investors. All of these facilities have operating and financial covenants including the requirement that the Company maintain two mortgage warehouse facilities (with minimum borrowing capacity limits) and the maintenance of certain financial ratios. In particular, the Company must maintain a minimum cash and cash equivalents balance of the higher of $15 million. Failure to comply with these covenants on either or both lines could result in the obligation to repay all amounts outstanding at the time of termination. In the past, the Company has obtained waivers from these lenders due to failure to comply with certain covenants.

Typically, the Company sells its loans on a servicing released basis without recourse. By doing so, it reduces its risk of loss or default by the borrower, except that it may be required to repurchase the loan in the event of an early payment default. Although loans are sold without recourse, the Company may be required to repurchase the loan if it breaches the representations or warranties that it makes in connection with the sale of the loan, or if the loan does not comply with the underwriting standards or other requirements of the ultimate loan purchaser.

While the Company achieved its first profitable year during 2002, the Company experienced a pre-tax loss of $1.5 million in the fourth quarter of 2003 and for the first nine months of 2004. The Company may not regain or increase profitability on a quarterly or annual basis in the future. If revenues grow more slowly than anticipated, or if operating expenses exceed expectations or cannot be adjusted accordingly, the business, results of operations and financial condition will be adversely affected. Management believes that its cash and cash equivalents held at December 31, 2004 will be sufficient to fund its operating activities and capital expenditures, and meet all other obligations including its minimum cash and cash equivalent covenants through at least December 31, 2005.

21. Subsequent Events

Effective January 1, 2005, the Company’s Board of Directors authorized an increase of 1,000,000 shares to the number of shares authorized for issuance under the Company’s 1997 Stock Plan, in accordance with the annual automatic increase provision contained in the Plan.

In January 2005, the Company entered into an agreement for a warehouse line of credit for borrowings of up to $150 million for the interim financing of mortgage loans with JPMorgan Chase Bank, N.A. The interest rate charged on borrowings against these funds is variable based on LIBOR plus various percentage points. Borrowings are collateralized by the related mortgage loans held-for-sale. The committed line of credit expires on January 3, 2006. Upon expiration, management believes it will either renew its existing line or obtain sufficient additional lines. This line of credit agreement generally requires the Company to comply with various financial and non-financial covenants. In particular, the Company must maintain a minimum cash balance of $12.5 million. Failure to comply with these, or any other covenants, could result in the obligation to repay all amounts then outstanding.

EXHIBITS

10.1	1997 Stock Plan, as amended
21.1	List of Subsidiaries of E-LOAN, Inc.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
31.1	Chief Executive Officer Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002#
31.2	Chief Financial Officer Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002#
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002##
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002##