

DOWNEY FINANCIAL CORP
Form DEF 14A
March 09, 2007

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
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DOWNEY FINANCIAL CORP.

(Name of Registrant as Specified in its Charter)

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(4) Date Filed:

DOWNEY FINANCIAL CORP.
3501 Jamboree Road
Newport Beach, CA 92660
(949) 854-0300

March 15, 2007

Notice of Annual Meeting of Stockholders
Wednesday, April 25, 2007
10:00 a.m.

Irvine Marriott Hotel
18000 Von Karman Avenue
Irvine, California

Dear Friends and Stockholders:

The Board of Directors and executive officers of Downey Financial Corp. (Downey) are pleased to extend to you a cordial invitation to attend Downey s Annual Meeting of Stockholders at the time and place shown above for the purpose of:

1. Electing four Class 3 Directors for terms of three years each;
2. Ratifying the appointment of KPMG LLP as auditors for fiscal year 2007; and
3. Transacting such other business as may properly come before the Annual Meeting and any adjournments thereof.

The Board of Directors has selected February 26, 2007 as the record date for the Annual Meeting. Only those stockholders of record at the close of business on that date will be entitled to notice of and to vote at the Annual Meeting or any adjournments thereof. Information about the matters on which stockholders will act is included in the attached Proxy Statement. Downey s directors and executive officers will be available at the meeting to meet with stockholders.

Your vote is important regardless of the number of shares you own. Whether or not you expect to attend the meeting, we ask that you **PLEASE SIGN AND RETURN THE ENCLOSED PROXY CARD IN THE POSTAGE-PAID ENVELOPE PROVIDED**. Thank you in advance for your cooperation.

We look forward to seeing you at the meeting.

Sincerely yours,

/s/ Maurice L. McAlister
MAURICE L. McALISTER

/s/ Cheryl E. Olson
CHERYL E. OLSON

Chairman of the Board

Vice Chairman of the Board

/s/ Daniel D. Rosenthal

DANIEL D. ROSENTHAL

President and Chief Executive Officer

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DOWNEY FINANCIAL CORP.
3501 Jamboree Road
Newport Beach, California 92660

PROXY STATEMENT

This Proxy Statement and the accompanying proxy card are furnished in connection with the solicitation of proxies by the Board of Directors (the "Board") of Downey Financial Corp., a Delaware corporation ("Downey") for use at the Annual Meeting of Stockholders of Downey to be held at 10:00 a.m., local time, on Wednesday, April 25, 2007, at the Irvine Marriott Hotel, 18000 Von Karman Avenue, Irvine, California 92612, and any adjournments thereof (the "Annual Meeting"). This Proxy Statement and the accompanying form of proxy are being mailed to stockholders on or about March 15, 2007. The mailing address of the principal office of Downey is 3501 Jamboree Road, Newport Beach, California 92660. Downey's telephone number is (949) 854-0300.

RECORD DATE AND VOTING OF SHARES

On February 26, 2007, the record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting, 27,853,783 shares of Downey's common stock ("Common Stock") were outstanding. A majority of the shares entitled to vote will constitute a quorum at the Annual Meeting. The four director nominees receiving the highest number of affirmative votes at the Annual Meeting, including those votes properly submitted by proxy, will be elected. All other proposals require the affirmative "**FOR**" vote of a majority of those shares present in person or represented by proxy and entitled to vote on those proposals at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining a quorum. Abstentions will not have any effect on the vote for directors but will be considered a vote **AGAINST** the proposal to ratify KPMG LLP as auditors.

VOTING AND REVOCATION OF PROXIES

Proxies are being solicited on behalf of the Board. All shares represented by a properly executed proxy will be voted in accordance with the directions on such proxy. If no directions are specified, such shares will be voted **FOR** the election of the Board's nominees for directors presented under Proposal 1 and **FOR** the ratification of KPMG LLP as auditors for the year 2007 presented under Proposal 2. If for any reason one or more of the nominees should be unable or refuse to serve as a director (an event which the Board does not anticipate), the persons named in the enclosed proxy, in their discretion, will vote for substitute nominees of the Board unless otherwise instructed. If any other matters are properly presented to the Annual Meeting for action (including any proposal to adjourn the Annual Meeting), the persons named in such proxy and acting thereunder will vote in accordance with their best judgment on such matters.

Any stockholder may revoke his or her proxy at any time before it is voted by filing with the General Counsel/Corporate Secretary of Downey a written instrument revoking it or by filing a duly executed proxy bearing a later date. The execution of the enclosed proxy will not affect the right of a stockholder to vote in person if such stockholder should decide to attend the Annual Meeting and desires to vote in person.

SOLICITATION OF PROXIES

Proxies are being solicited on behalf of the Board. Downey will bear the cost of soliciting proxies. Directors and officers of Downey and directors, officers and employees of Downey Savings and Loan Association, F.A. (the "Bank") may solicit proxies personally, by mail, telephone, telecopier or other electronic transmission. Such directors, officers or employees will receive no compensation for their solicitation services other than their regular salaries, but may be reimbursed for out-of-pocket expenses. Downey will request record holders of shares beneficially owned by others to forward this Proxy Statement

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and related materials to the beneficial owners of such shares and will reimburse such record holders for their reasonable expenses incurred in doing so.

PROPOSAL 1. ELECTION OF DIRECTORS

The directors of Downey are divided into three classes, as nearly equal in number as possible, with one class to be elected annually. The members of each class are elected for terms of three years and until their respective successors are duly elected and qualified, with one of the three classes of directors being elected each year. Article III, Section 3.2 of Downey's Bylaws provides that the Board shall be composed of not less than nine nor more than 11 members, the exact number to be fixed by the Board. Directors Bozarth and Brummett were appointed to the Board in November 2006 bringing the total number of directors to 11.

Accordingly, at this Annual Meeting, four Class 3 Directors are to be elected to serve three-year terms and until their respective successors are duly elected and qualified. The following persons have been nominated by the Board to serve as directors:

For election as Class 3 Directors to hold office until the 2010 Annual Meeting of Stockholders, and until their respective successors are duly elected and qualified: Michael D. Bozarth; James H. Hunter; Brent McQuarrie; and Jane Wolfe.

The Board of Directors unanimously recommends a vote "FOR" the election of each of the nominees.

Information Concerning Nominees and Directors

Certain information concerning each nominee for director and each current director is set forth below. For information regarding ownership of Downey Common Stock by nominees and directors of Downey, see "Security Ownership of Directors and Executive Officers" below. There are no arrangements or understandings between any director, or any nominee, or any other person pursuant to which such director or nominee is or was nominated to serve as director.

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The following table sets forth certain information concerning (i) the four nominees standing for election to the Board at the Annual Meeting, and (ii) all other directors whose terms as directors will continue after the Annual Meeting.

<i>Name</i>	<i>Age At February 26, 2007</i>	<i>Position(s) Currently Held</i>	<i>Director of Downey Since ⁽¹⁾</i>	<i>Year Term Expires</i>
Nominees For Election				
<i>Class 3</i>				
Michael D. Bozarth	45	Director	2006	2007
James H. Hunter	48	Director	2002	2007
Brent McQuarrie	55	Director	1994	2007
Jane Wolfe	61	Director	2004	2007
Continuing Directors				
<i>Class 1</i>				
Gary W. Brummett	49	Director	2006	2008
Gerald E. Finnell	67	Director	2003	2008
Maurice L. McAlister	81	Director/Chairman	1994	2008
Daniel D. Rosenthal	54	Director, President and Chief Executive Officer	1998	2008
<i>Class 2</i>				
Michael B. Abrahams	54	Director	1999	2009
Cheryl E. Olson	50	Director/Vice Chairman	1994	2009
Lester C. Smull	74	Director	1994	2009

⁽¹⁾ Downey was organized on October 21, 1994. Prior thereto, Brent McQuarrie, Maurice L. McAlister, Cheryl E. Olson and Lester C. Smull were directors of the Bank.

Nominees for Election at this Meeting as Class 3 Directors with Terms Expiring in 2010

Michael D. Bozarth Mr. Bozarth has served as a director of Downey and the Bank since 2006. Mr. Bozarth is currently a Managing Director with Alumni Capital Network, a New York based private equity firm. Prior thereto, Mr. Bozarth served as a Managing Partner in the Financial Services Industry Practice at Accenture. Mr. Bozarth served at Accenture, a global management consulting, technology services and outsourcing company, from 1984 to 2005 in a number of consulting positions. Mr. Bozarth's practice has focused, in part, on strategy, planning and the implementation of large scale technology infrastructure programs for some of the largest retail banks, lenders and credit card companies both domestically and internationally.

James H. Hunter Mr. Hunter has served as a director of Downey and the Bank since 2002. Mr. Hunter's principal occupation for the past several years has been Executive Vice President of Planning and Acquisition for The Corky McMillin Companies, a San Diego based residential real estate developer. Mr. Hunter has been with The Corky McMillin Companies since 1990, following nine years with Exxon Co., U.S.A. where he held various engineering, management and supervisory positions associated with oil and gas exploration and production and was involved in several major acquisitions.

Brent McQuarrie Mr. McQuarrie is a director of Downey and the Bank. Mr. McQuarrie has served as a director of Downey since 1994 and the Bank since 1987. Mr. McQuarrie's principal occupation for the past seven years has been President and director of Legacy Realty and Investment Corp., a Utah real estate and development company, formerly known as Seven Peaks Development. In addition, since March 2006, Mr. McQuarrie has served as President and Director of Integra Investments, LLC, a Utah real estate development company.

Jane Wolfe Ms. Wolfe has served as a director of Downey and the Bank since 2004. Ms. Wolfe served as Executive Vice President and Chief Administrative Officer of the Bank from January 2001 until her retirement in May 2004. Prior to re-joining the Bank as Executive Vice President and Chief Lending Officer in April 1994, Ms. Wolfe served as Senior Vice President and Manager of Mortgage Lending for Liberty National Bank from September 1993 to April 1994. Ms. Wolfe acted as a mortgage lending consultant to several financial institutions from November 1992 to September 1993. From August 1978 to November 1992, Ms. Wolfe served as Executive Vice President and Chief Lending Officer of the Bank and Chief Underwriter and Underwriter from July 1974 to February 1977.

Class 1 Directors Whose Present Terms Continue Until 2008

Gary W. Brummett Mr. Brummett has served as a director of Downey and the Bank since 2006. Mr. Brummett served as a member on the Boards of Directors of Commercial Capital Bancorp, Inc. and Hawthorne Financial Corp. until the completion of the respective merger of each institution. Since 1997, Mr. Brummett has served as Managing Partner of Peak View Advisors, LLC, a Los Angeles based company which specializes in providing consulting services to the financial services industry. Mr. Brummett served at Cal Fed Bancorp Inc. from 1985 to 1997 in various executive positions, including Chief Operating Officer and Principal Financial Officer.

Gerald E. Finnell Mr. Finnell has served as a director of Downey and the Bank since 2003. Mr. Finnell was an audit partner with KPMG LLP from 1962 to 1995 and served as a director of KPMG LLP from 1987 to 1994.

Maurice L. McAlister Mr. McAlister is the Chairman of the Boards of Downey and the Bank and was a co-founder of the Bank together with the other co-founder, the late Gerald H. McQuarrie. Mr. McAlister served as President of the Bank from 1957 until his retirement in September 1991. In addition, Mr. McAlister is a director and President of McAlister Investments, Inc., an affiliate of Downey.

Daniel D. Rosenthal Mr. Rosenthal has served as a director of Downey and the Bank since 1998 and has served as the President and Chief Executive Officer of Downey and the Bank since September 2004. Mr. Rosenthal also

served as the President and Chief Executive Officer of Downey and the Bank from November 1998 until January 2004. Mr. Rosenthal joined the Bank in 1975, was appointed a director of DSL Service Company (a wholly-owned subsidiary of the Bank) in 1975, and was appointed as DSL Service Company's Acting President in 1993. Mr. Rosenthal was named President of DSL Service Company in 1994 and continues in that capacity. During 1998, Mr. Rosenthal served as the Chief Operating Officer of the Bank.

Class 2 Directors Whose Present Terms Continue Until 2009

Michael B. Abrahams Mr. Abrahams has served as a director of Downey and the Bank since 1999. Mr. Abrahams is President of New Markets Advisory LLC, an asset management firm and is the General Partner of New Markets Financial Fund, an equity investment fund. Mr. Abrahams served as a Managing Director at Hoefer & Arnett, Inc., a San Francisco based investment banking firm specializing in financial institutions from 1999 to 2006. Mr. Abrahams was a senior research analyst for Sutro & Co. from 1996 to 1999 and a Senior Vice President, Investment Banking with Oppenheimer & Co., Inc. from 1991 to 1996. In addition to serving as a research analyst at Bateman Eichler, Hill Richards from 1988 to 1991 and Johnston, Lemon & Co. in Washington, DC from 1986 to 1988, Mr. Abrahams was a policy analyst in the Executive Office of the President, Office of Management and Budget, Washington, DC from 1981 to 1986.

Cheryl E. Olson Mrs. Olson is the Vice Chairman of the Boards of Downey and the Bank. Mrs. Olson has served as a director of Downey since 1994 and the Bank since 1987. Mrs. Olson is actively involved in a variety of real estate development, management and consultant activities as well as

community and non-profit organizations. Mrs. Olson is the daughter of Maurice L. McAlister, Chairman of the Board of both Downey and the Bank.

Lester C. Smull Mr. Smull has served as a director of Downey and the Bank since 1994. In 1970, Mr. Smull founded Business Properties Development Company ("Business Properties"), a real estate development company with offices in Irvine, California and Phoenix, Arizona. Business Properties' activities consist of the development, construction and management of commercial shopping centers, office and industrial buildings throughout California and Arizona, in addition to land acquisition, planning, design, property management, marketing and asset management services. Mr. Smull is also a licensed general contractor and operates Business Properties Construction Company.

PROPOSAL 2. RATIFY THE APPOINTMENT OF AUDITORS

The Audit Committee of the Board has appointed KPMG LLP as Downey's auditors for 2007 and this appointment is being submitted to the stockholders for ratification. In the event the appointment is not ratified by a majority of votes cast, in person or by proxy, it is anticipated that no change in auditors would be made for the current year because of the difficulty and expense of making any change so long after the beginning of the current year. However, such vote would be considered in connection with the appointment of auditors for the next year. Even if the appointment is ratified, the Audit Committee may appoint a new independent auditor at any time during the year.

KPMG LLP was Downey's auditor for the year ended December 31, 2006, and their representative is expected to attend the Annual Meeting, be available to respond to appropriate questions from stockholders, and have the opportunity to make a statement if he/she desires to do so.

In 1989, the Board engaged KPMG LLP as Downey's independent auditor and the relationship which has existed has been the customary relationship between an independent accountant and client. The 2007 audit engagement agreement between Downey and KPMG contains a provision in which each party waives their respective

right to recover punitive damages from the other party.

Fees

During 2005 and 2006, Downey paid KPMG LLP the following amounts for the services as described below:

	2005	2006
Audit Fees ⁽¹⁾	\$580,000	\$696,675
Audit-Related Fees ⁽²⁾	91,500	161,500
Tax Fees ⁽³⁾	15,465	15,465
Other Fees	-0-	-0-

(1) For audit and review of annual financial statements, management's assessment of internal control and review of the unaudited financial statements included in the Form 10-Qs.

(2) For assurance and related services reasonably related to the performance of the financial statements not reported above under Audit Fees.

(3) For the following services: tax compliance; tax advice; and tax planning.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy that requires the Audit Committee's pre-approval of audit and non-audit services performed by the independent auditor to assure that such services do not impair the auditor's independence. Unless a type of service has received specific pre-approval by the Audit

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Committee, the independent auditor may not be engaged to perform the service. Any proposed services exceeding pre-approved cost levels also require specific pre-approval by the Audit Committee. The Audit Committee has delegated to the Chairman of the Audit Committee pre-approval authority for audit and non-audit services. The Audit Committee may also delegate such pre-approval authority to one or more of its members beyond the Chairman.

The Audit Committee has approved all of the fees described above.

The Board recommends that stockholders vote "FOR" this proposal. Proxies, unless indicated to the contrary, will be voted "FOR" this proposal.

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BOARD COMMITTEES AND MEETING ATTENDANCE

Downey has four Board Committees: Audit; Compensation; Nominating and Corporate Governance; and Executive. Membership in the committees, as of the record date of February 26, 2007, is as follows:

Audit

Compensation

Nominating
and Corporate Governance

Michael B. Abrahams, Chair	Michael B. Abrahams, Chair	Cheryl E. Olson, Chair
Gary W. Brummett	Michael D. Bozarth	Maurice L. McAlister
Gerald E. Finnell	Cheryl E. Olson	Brent McQuarrie
Brent McQuarrie	James H. Hunter	

Executive

Maurice L. McAlister, Chair
Cheryl E. Olson
Brent McQuarrie
Daniel D. Rosenthal

Audit Committee

Thirteen Meetings in 2006

- Selects and retains Downey's and the Bank's independent accountants and assures their independence and objectivity;
- Reviews the scope of the audit plans of the independent accountants and the internal auditors;
- Oversees Downey's and the Bank's policies pertaining to the effectiveness of internal controls, financial reporting, compliance and risk management;
- Reviews the objectivity, effectiveness and resources of the internal audit and internal asset review functions which report directly to the Audit Committee;
- Approves non-audit services to be performed by the independent accountants; and
- Approves the fees for audit and non-audit services performed by the independent accountants.

Compensation Committee

Two Meetings in 2006

- Establishes the overall compensation and benefits policies for Downey and the Bank;
- Reviews and recommends to the independent directors of the Board, the salary and incentive compensation for the President and Chief Executive Officer;
- Reviews and recommends to the Board the salaries and incentive compensation for the other executive officers of Downey and the Bank;
- Reviews and approves the short-term and long-term incentive compensation programs;
- Reviews and recommends to the full Board of Directors for approval Downey's director compensation;
- For a discussion of the role certain of our executive officers play in Downey's compensation determinations, see Compensation Discussion and Analysis ;
- May form and delegate authority to subcommittees when appropriate, though no such delegation has yet been made; and

- Authorized to retain and approve fees of special or independent attorneys, accountants, experts or consultants, without seeking approval of the Board. No compensation consultants were retained for 2006 compensation.

Nominating and Corporate Governance Committee

Three Meetings in 2006

Reviews and makes recommendations to the Board regarding:

- Oversight of Board activities related to corporate governance and organization structure;
- Qualifications for director candidates;
- Candidates for election and re-election to the Board;
- Candidates for the position of Chairman of the Board, and President and Chief Executive Officer; and
- The performance of the President and Chief Executive Officer, in conjunction with the Compensation Committee.

Executive Committee

One Meeting in 2006

- Exercises the powers of the Board when the Board is not in session, except for the authority to approve the declaration of dividends and except as may otherwise be limited or restricted under applicable Delaware law or under Downey's Certificate of Incorporation or Bylaws.

Actions taken by any of the foregoing committees are reported to the Board, usually at its next meeting.

The Charters of the Audit Committee, the Nominating and Corporate Governance Committee and the Compensation Committee are available on Downey's website at www.downeysavings.com by clicking on Investor Relations and then Corporate Governance. The Charters are also available in print and may be obtained, free of charge to stockholders, upon written request to: Downey Financial Corp., 3501 Jamboree Road, Newport Beach, California 92660, Attention: General Counsel/Corporate Secretary. (Information on our website is not part of this Proxy Statement.)

Board Meetings

During 2006, the Board met 11 times for regular meetings. All directors attended at least 75% of the aggregate meetings held during 2006 by the Board and the committees of the Board on which they served.

During 2006, the independent directors met (without management) two times. The independent director meetings were chaired by Downey's Chairman of the Board or, if he was not present, by the Vice-Chairman.

Director Attendance at Annual Meetings

Downey's corporate governance policies state that directors are expected to attend annual meetings of stockholders. All nine directors of Downey as of the 2006 Annual Meeting attended that meeting. Directors Bozarth and Brummett were elected to the Board in November 2006.

DIRECTOR INDEPENDENCE

On November 4, 2003, the Securities and Exchange Commission ("SEC") approved the final corporate governance rules of the New York Stock Exchange ("NYSE"), including final criteria for director independence and a requirement that listed companies have a majority of independent directors. Applying the NYSE's final independence criteria, the Board has affirmatively determined that eight

directors (Abrahams, Bozarth, Brummett, Finnell, Hunter, McAlister, McQuarrie and Olson) are independent, because each such director has no material relationship with Downey or the Bank, either directly or as a partner, stockholder or officer of an organization that has a relationship with Downey or the Bank. The Board also determined that the

remaining three directors (Rosenthal, Smull and Wolfe) are not independent. None of these three directors serve on our Audit, Compensation or Nominating and Corporate Governance Committees.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information as of February 26, 2007, regarding the beneficial ownership of shares of Common Stock by each director, each of the executive officers named in the Summary Compensation Table on Page 21 and by all directors and executive officers as a group. Unless otherwise stated, the beneficial owner exercises sole voting and investment power over their shares.

<i>Name of Beneficial Owner</i>	<i>Aggregate Number of Shares Beneficially Owned</i>		<i>Percent of Outstanding Shares</i>
Maurice L. McAlister	5,616,615	(1)	20.2
Cheryl E. Olson	692,072	(2)	2.5
Brent McQuarrie	344,918	(3)	1.2
Daniel D. Rosenthal	108,369	(4)	*
Michael B. Abrahams	4,000		*
James H. Hunter	2,729	(5)	*
Jane Wolfe	980		*
Lester C. Smull	598		*
Gerald E. Finnell	500		*
Michael D. Bozarth	-0-		*
Gary W. Brummett	-0-		*
Thomas E. Prince	14,467	(6)	*
Cliff Piscitelli	370		*
Brian E. Côté	-0-		*
Jon A. MacDonald	-0-		*
All Directors and Executive Officers			
as a Group (26 persons)	6,797,996	(7)	23.9%

(1) Mr. McAlister with his spouse, Dianne S. McAlister, as Co-trustor and Co-trustee of the McAlister Family Trust, exercise shared voting and investment power over all shares. Mr. McAlister has pledged 3,194,896 of his shares.

(2) Mrs. Olson holds sole voting and investment power over all shares.

(3) Mr. McQuarrie holds 200,000 shares through Next Generation, Ltd., a Utah limited partnership, in which he serves as General Partner. Mr. McQuarrie holds 134,074 shares as Trustee through Four Jays, Ltd. for the benefit of his children. In addition, Mr. McQuarrie shares voting and investment power with his spouse, Kathryn McQuarrie, as Co-trustor and Co-trustee with respect to 1,220 shares, all of which are held in trust for the benefit of their children. Mr. McQuarrie holds 6,387 shares in an Individual Retirement Account and Mr. McQuarrie's spouse, Kathryn McQuarrie, holds 2,237 shares in an Individual Retirement Account. Mr. and Mrs. McQuarrie hold 1,000 shares as Joint Tenants.

(4) Includes options covering 29,484 shares that are exercisable within 60 days.

(5) Mr. Hunter holds 2,729 shares through the Downey Financial Corp. Stock Purchase Plan.

(6) Includes options covering 14,467 shares that are exercisable within 60 days.

(7) Includes shared voting and investment power over 5,627,515 shares and includes options covering 52,914 shares that are exercisable within 60 days.

* Less than 1% of outstanding Common Stock at February 26, 2007.

EXECUTIVE OFFICERS

Executive officers are appointed annually and serve at the pleasure of the Board.

The following table and remainder of this section set forth the names of the executive officers of Downey and the Bank as of the record date of February 26, 2007, along with certain other information relating to such persons:

<i>Name</i>	<i>Age At February 26, 2007</i>	<i>Current Position</i>
Daniel D. Rosenthal	54	President and Chief Executive Officer of Downey and the Bank
Thomas E. Prince	60	Executive Vice President and Chief Operating Officer of Downey and the Bank
Brian E. Côté	53	Executive Vice President and Chief Financial Officer of Downey and the Bank
Jon A. MacDonald	34	Executive Vice President, General Counsel and Corporate Secretary of Downey and the Bank
Stanley M. Tarbell	46	Senior Vice President and Tax Director of Downey and the Bank
Ned Altemus	56	Executive Vice President and Director of Residential Lending of the Bank
Kendice K. Briggs	39	Executive Vice President and Director of Human Resources of the Bank
Francisco de Cordova	60	Executive Vice President and Chief Information Officer of the Bank
Lillian E. Gavin	44	Executive Vice President and Director of Regulatory Affairs of the Bank
J.P. Perfili	37	Executive Vice President and Director of Retail Banking of the Bank
Cliff J. Piscitelli	57	Executive Vice President and Director of

Asset Management of the Bank

David A. Casty	45	Senior Vice President, Manager of DSL Service Company
Hugh C. Chewning	57	Senior Vice President and Director of Marketing of the Bank
Edward A. Luther	50	Senior Vice President and Director of Major Loans of the Bank
Jeffrey D. Pratt	46	Senior Vice President and Chief Risk Officer of the Bank
Kent J. Smith	45	Senior Vice President and Controller of the Bank

Daniel D. Rosenthal See Page 4 for a description of Mr. Rosenthal's business background.

Thomas E. Prince Mr. Prince was appointed Executive Vice President and Chief Operating Officer of Downey and the Bank in September 2004. Prior thereto, Mr. Prince served as Executive Vice President and Chief Financial Officer of Downey and the Bank from May 1992 to March 2006. Prior to joining the

Bank, Mr. Prince spent 24 years at Security Pacific Corporation and Security Pacific National Bank in various financial capacities, the last eight years of which as Senior Vice President and Controller.

Brian E. Côté Mr. Côté was appointed Executive Vice President and Chief Financial Officer of Downey and the Bank in March 2006. Prior to joining Downey and the Bank, Mr. Côté served as Executive Vice President and Chief Financial Officer of Chinatrust Bank (U.S.A.) from April 2004 through March 2006, and Senior Vice President and Chief Financial Officer of Kinecta Federal Credit Union from May 1999 through April 2004. Prior thereto, Mr. Côté served as Vice President and Chief Financial Officer of Ditech Funding from February 1998 to May 1999 and in a variety of financial positions at WesCorp, Security Pacific National Bank and American Express International Bank.

Jon A. MacDonald Mr. MacDonald was appointed Executive Vice President, General Counsel and Corporate Secretary of Downey and the Bank in July 2005. Prior to joining Downey and the Bank, Mr. MacDonald served as Executive Vice President & General Counsel of Orange County, California based Crown Realty & Development, Inc. Prior thereto, Mr. MacDonald practiced transactional real estate law with the Los Angeles and Orange County offices of Paul, Hastings, Janofsky & Walker LLP.

Stanley M. Tarbell Mr. Tarbell was appointed Tax Director of the Bank in 1989 and was appointed Senior Vice President in June 1998. Mr. Tarbell was appointed Senior Vice President and Tax Director of Downey in 1999. Mr. Tarbell joined the Bank as Tax Manager in 1987, and prior thereto, was a practicing Certified Public Accountant with the firm of Kenneth Leventhal and Company.

Ned Altemus Mr. Altemus was appointed Executive Vice President and Director of Residential Lending of the Bank in August 2006. Mr. Altemus joined the Bank in January 1996 as Regional Production Manager and was appointed Vice President and Director of Wholesale Lending in July 1998. Prior thereto, Mr. Altemus served as Vice President of Residential Lending for First Interstate Bank from 1989 to 1995 and Vice President and Regional Loan

Manager for Columbia Savings from 1985 to 1989.

Kendice K. Briggs Ms. Briggs was appointed Executive Vice President and Director of Human Resources of the Bank in January 2006 and Senior Vice President, Director of Human Resources in November 2000. Ms. Briggs joined the Bank in 1995 as an employment supervisor and was appointed Vice President and Manager of Human Resources in July 1998. Prior thereto, Ms. Briggs managed the Human Resources Department for Imperial Thrift and Loan Association from 1991 to 1995 and, prior thereto, worked for the accounting firm of Coopers & Lybrand in their Professional Personnel Department.

Francisco de Cordova Mr. de Cordova was appointed Executive Vice President and Chief Information Officer of the Bank in September 2005. Prior to joining the Bank, Mr. de Cordova served as Consulting Strategic Planner at Wells Fargo and Company. Mr. de Cordova has over 30 years of Information Technology experience in banking and healthcare. Previous positions include Senior Director National Operations at Kaiser Permanente from 1997 to 2003; Senior Vice President Technology at Home Savings of America from 1993 to 1995, and First Vice President Technology Services at Security Pacific National Bank and Bank of America.

Lillian E. Gavin Ms. Gavin was appointed Executive Vice President and Director of Regulatory Affairs in November 2006. Prior thereto, Ms. Gavin served as Executive Vice President and Chief Credit Officer of the Bank from May 2005 to November 2006 and Executive Vice President, Director of Compliance and Risk Management from December 1998 to May 2005. Prior to joining the Bank as Senior Vice President, Director of Compliance and Risk Management in 1997, Ms. Gavin was a senior examiner with the Office of Thrift Supervision and its predecessor, the Federal Home Loan Bank Board, since 1987, and was a bank liquidation specialist with the Federal Deposit Insurance Corporation from 1984 to 1987.

J. P. Perfili Mr. Perfili was appointed Executive Vice President and Director of Retail Banking of the Bank in January 2006 and Senior Vice President, Director of Retail Banking in May 2005. Prior thereto, Mr. Perfili was responsible for community banking services at Vineyard Bank. Prior thereto, Mr. Perfili

served as Vice President, Group Director, and in various other retail banking managerial positions for Downey Savings and Loan Association, F.A. from 1996 to 2005.

Cliff J. Piscitelli Mr. Piscitelli was appointed Executive Vice President and Director of Asset Management of the Bank in December 2006. Prior thereto, Mr. Piscitelli served as Executive Vice President, Director of Secondary Marketing of the Bank from January 2006 to December 2006 and Senior Vice President, Director of Secondary Marketing from November 2004 to January 2006. Mr. Piscitelli previously held the position of Executive Vice President, Director of Asset Management of the Bank from April 2001 to May 2003. Prior thereto, Mr. Piscitelli served as Director of Mortgage Banking of the Bank from October 2000 to April 2001, Chief Executive Officer of KATL Properties from April 1995 to April 2000, and Chief Executive Officer and principal of Frontline Mortgage Company from December 1989 to January 1995.

David A. Casty Mr. Casty was appointed Senior Vice President, Manager of DSL Service Company in January 2006. Prior thereto, Mr. Casty served as Vice President and Senior Real Estate Project Manager of DSL Service Company and the Bank from 2002 through 2005. Mr. Casty joined DSL Service Company in 1986 as Assistant Project Manager and held various positions with DSL Service Company and the Bank from 1986 through 2002.

Hugh C. Chewning Mr. Chewning was appointed Senior Vice President and Director of Marketing of the Bank in February 2005. Prior to joining the Bank, Mr. Chewning served as President of Chewning Direct Marketing from March 1986 to February 2005. Prior thereto, Mr. Chewning held senior-level positions at various direct marketing

firms on the West and East Coast.

Edward A. Luther Mr. Luther was appointed Senior Vice President and Director of Major Loans in February 1999. Mr. Luther joined the Bank in January 1993 as the Environmental Risk Analyst and became the Construction Disbursement Manager for the Major Loan Department. Mr. Luther became a Vice President, Senior Account Officer in August 1996 and became the Operations Manager of the Major Loan Department in June 1997. Prior to joining the Bank, Mr. Luther was a Vice President, Loan Officer with Great American Bank.

Jeffrey D. Pratt Mr. Pratt was appointed Senior Vice President and Chief Risk Officer of the Bank in November 2006. Prior to joining the Bank, Mr. Pratt served as First Vice President and Chief Credit Officer for IndyMac Bank's Consumer Direct Division from March 2004 to October 2006, Senior Manager for Portfolio Risk at Option One Mortgage from September 2003 to March 2004, Vice President Corporate Credit at IndyMac Bank from October 2001 to September 2003, Managing Member of El Camino Partners, LLC from September 1999 to 2001, and prior thereto in a variety of risk management positions for Westcorp.

Kent J. Smith Mr. Smith was appointed Senior Vice President and Controller of the Bank in January 2001. Prior thereto, Mr. Smith served as Vice President, Acting Controller of the Bank from August 2000 and Vice President, Assistant Controller of the Bank from June 1998 to July 2000. Mr. Smith joined the Bank in October 1992 as a Senior Internal Auditor and was appointed Financial Reporting Manager in February 1996.

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AUDIT COMMITTEE REPORT

The Audit Committee is responsible for monitoring the integrity of Downey's financial reporting process and systems of internal controls regarding financial reporting, accounting and legal compliance. In addition, the Audit Committee is responsible for the selection and hiring of the independent auditor and monitoring the independence and performance of Downey's independent auditors, the internal auditing department and the internal asset review function. The Audit Committee also facilitates communication among the independent auditors, management, the internal auditing department, the internal asset review department and the Board. The current members of the Audit Committee are Michael B. Abrahams (Chairman from September 2006 to present), Gerald E. Finnell, (Chairman from February 2003 to September 2006), Gary W. Brummett and Brent McQuarrie. The Board has determined that each member of the Audit Committee is independent under applicable listing standards and that Michael B. Abrahams, Gerald E. Finnell and Gary W. Brummett qualify as "audit committee financial experts."

Audit Philosophy

During 2007, the Board re-approved the Audit Committee charter, which complies with the rules relating to the functioning of corporate audit committees promulgated by the SEC and NYSE. The charter is attached to this Proxy Statement as Appendix A. (Information on our website is not part of this Proxy Statement.)

During 2006, the Audit Committee met 13 times. The Audit Committee reviewed and discussed with management Downey's quarterly earnings releases and financial statements as well as the annual audited financial statements. The Audit Committee discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61.

Communications with Independent Auditors

The Audit Committee discussed with the independent auditors changes in significant accounting policies, the process used by management in formulating material accounting estimates and the independent auditor's conclusions

regarding the reasonableness of such policies, estimates and adjustments arising from the audit, if any, and any disagreements with management over the application of accounting principles.

The Audit Committee received, reviewed and discussed with the independent auditors, the auditor's written disclosures regarding independence and the letter from the auditor required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. Based on the review of such disclosures and giving consideration to the non-audit services provided by KPMG LLP during 2006, the Audit Committee has concluded that KPMG's independence has not been impaired or compromised.

Section 404 of the Sarbanes-Oxley Act of 2002

The Audit Committee reviewed and discussed Downey's compliance with Section 404 of the Sarbanes-Oxley Act of 2002, including the Public Company Accounting Oversight Board's Auditing Standard No. 2 regarding the audit of internal control over financial reporting. The Audit Committee also reviewed and discussed Downey's guidelines for risk assessment and risk management and the major risk exposures of Downey and its business units, as appropriate.

Based on the Audit Committee's review and discussions described above, the Audit Committee recommended to the Board that the audited financial statements be included in Downey's Form 10-K filed with the SEC.

Respectfully submitted,

Michael B. Abrahams, Chairman

Gary W. Brummett

Gerald E. Finnell

Brent McQuarrie