

DOWNEY FINANCIAL CORP.

CHARTER FOR THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE OF THE BOARD OF DIRECTORS

I. Purpose of the Committee

Downey's Nominating and Corporate Governance Committee ("NCGC") is responsible for providing to the Board of Directors of both Downey Financial Corp. ("DFC") and Downey Savings and Loan Association, F.A. ("Downey Savings" and with DFC, collectively, "Downey") the NCGC's recommendations regarding individuals qualified to become Board members, and then nominating those individuals to become members of the Boards.

Additionally, the NCGC is responsible for recommending to the Boards, nominees for each individual committee.

The NCGC also shapes corporate governance policies and practices, recommends to the Board the corporate governance guidelines ("Guidelines") applicable to Downey and monitors Downey's compliance with the Guidelines.

II. Membership

1. Qualifications. The NCGC shall consider individuals qualified to become Directors for recommendation to the Boards of Downey.

The Boards will have a majority of Directors who meet the criteria for independence required by the New York Stock Exchange ("NYSE"). The NCGC is responsible for reviewing with the Boards, on an annual basis, the requisite skills and characteristics of new Board members as well as the composition of the Board as a whole. This assessment shall include a candidate's integrity, education, business experience, accounting, and financial expertise, age, diversity, reputation, civic and community relationships, and knowledge and experience in matters impacting financial institutions such as Downey Savings.

2. Nominations. The NCGC shall recommend to the Board the slate of nominees for election to the Board at DFC's annual meeting of stockholders.
3. Vacancies. The NCGC shall fill vacancies by actively seeking individuals qualified to become Board members for recommendation to the Board.

III. Committee Structure

1. Number of Committee Members. The Board shall designate a minimum of three (3) Directors to sit on the NCGC, all of whom must qualify as independent under the NYSE listing standards.
2. Term. The members of the NCGC shall serve until their successors are duly elected and qualified by the Board.
3. Chair. The Board will appoint one of the members of the NCGC to serve as Chair. The NCGC may also appoint a Secretary who need not be a director. In the absence of a member designated by the Board to serve as Chair, the members of the NCGC may appoint, by the majority vote of the NCGC, from among their members, a person to preside at their meetings.
4. Delegation. The NCGC may form and delegate authority to subcommittees when appropriate.
5. Outside Resources. The NCGC is authorized to select, retain, terminate and approve fees and other retention terms of special or independent attorneys, accountants, experts, or consultants without seeking approval of the Board. Downey shall provide appropriate funding, as determined by the NCGC, for the payment of any such fees. The NCGC may request any officer or employee of Downey or Downey's outside attorneys, accountants or consultants to attend a meeting of the NCGC or to meet with any members or consultants of the NCGC.

IV. Duties and Responsibilities

The following functions shall be common recurring activities of the NCGC in carrying out its purpose. These functions should serve as a guide; the NCGC may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory or other conditions. The NCGC shall:

1. Review and assess the adequacy of Downey's policies and practices on corporate governance, including the Guidelines, and recommend any proposed changes to the Board for approval. The current Guidelines are attached hereto as Exhibit 1 and incorporated herein by this reference.
2. Review and assess the adequacy of the Downey Code(s) of Ethical Conduct and other internal policies and guidelines.
3. Review the appropriateness of the size of the Boards of DFC and Downey Savings relative to their various responsibilities.

4. Review the overall composition of the Boards, taking into consideration such factors as business experience and specific areas of expertise of each Board member.
5. Advise the Boards on appointments to and removal from other committees or from the Board. Advise on rotations of committee members and chairs as well as committee structures and operations.
6. Periodically assess the effectiveness of the Boards in meeting their responsibilities and representing the long-term interests of stockholders.
7. Develop and implement appropriate educational and training programs for new directors. Develop and recommend to committee chairs appropriate educational and training programs.
8. Make periodic reports to the Boards.
9. Review and reassess the adequacy of this Charter and the Guidelines annually and recommend any proposed changes to the Board for approval.
10. Evaluate the NCGC's performance annually.
11. Coordinate the process of annual evaluations of the Boards and the other Board committees.
12. Meet as frequently as the NCGC deems necessary. The operation of the NCGC, including with respect to actions without meetings, notice of meetings and waiver of notice, quorums and voting requirements shall be as set forth in DFC's bylaws.

Exhibit 1

Corporate Governance Guidelines

1. Director Qualifications

The Board will have a majority of directors who meet the criteria for independence required by the New York Stock Exchange (“NYSE”). The Nominating and Corporate Governance Committee (“NCGC”) is to review with the Board, annually, the requisite skills and characteristics of new Board members and the composition of the Board as a whole. This assessment will include members' qualifications and consideration of diversity, age, skills, and experience in the context of the needs of the Board. Nominees for directorship will be selected by the NCGC.

The Board currently has nine members. It is the sense of the Board that the size of the Board provides a diversity of viewpoints and backgrounds while still being small enough to permit full engagement and discussion by the directors.

The Board’s director retirement policy provides that a director will not be nominated for re-election if at the time of such re-election the director will be age 72 or older, with Director Maurice McAlister being exempted from the policy.

The NCGC will review each director's renomination to the Board every three years (when his or her elected term is expiring) and regularly assesses that all directors are able to devote the time and energy needed to function effectively as a Board member.

2. Director Responsibilities

The basic responsibility of every director is to exercise good business judgment and act in what the director reasonably believes to be the best interests of Downey and its shareholders. In discharging that obligation, directors rely on Downey’s senior executives and its outside advisors and auditors. The directors also receive indemnification to the fullest extent permitted by law and in Downey’s charter, bylaws and indemnification agreements.

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Information and data that are important to the Board's understanding of the business to be conducted at a meeting should generally be distributed in writing to the directors a week before the meeting, and directors should review these materials in advance of the meeting.

The Chairman of the Board will establish the agenda for the Board meeting. Each director is free to suggest agenda items. Each director also is free to raise at any Board meeting subjects that are not on the agenda for that meeting. The Board will review Downey's long-term strategic plans and the principal issues that Downey will face in the future during at least one Board meeting each year.

The non-management directors will meet regularly and, upon request of any director, at any specially called Board meeting. The process by which directors are selected to preside at these meetings will be determined by the non-management directors. Any party who would like to express any concerns to the non-management directors may do so by sending a letter addressed to "Non-management Directors," care of the Corporate Secretary at Downey's headquarters at 3501 Jamboree Road, North Tower, 5th Floor, Newport Beach, CA 92660.

3. Board Committees

The existing Board Committees are (1) Audit; (2) Compensation; (3) Nominating and Corporate Governance; and (4) Executive. All members of the first three Committees are independent under NYSE established criteria and those committees each have a written charter. The duties and responsibilities of all committees are described in Downey's annual proxy statement.

The Board may, from time to time, establish or maintain additional committees as necessary or appropriate or delete committees no longer necessary, consistent with NYSE requirements.

The Board and each committee has the power to hire independent legal, financial or other advisors as it may deem necessary, without consulting or obtaining the approval of any Downey officer in advance. Downey shall provide appropriate funding, as determined by the Board or Committee, for the costs of such independent advisors.

4. Director Compensation

Director compensation is determined by the Compensation Committee in accordance with its written policies and principles. The Compensation Committee realizes that a director's independence may be jeopardized if director compensation and perquisites exceed customary levels, if Downey makes substantial charitable contributions to organizations with which a director is affiliated, or if Downey enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

5. Director Access to Officers and Employees

Directors have full and free access to officers and employees of Downey. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO or the Secretary or by the director. Directors should ensure that any such contact does not disrupt Downey's operations.

The Board will continue its longstanding practice of having senior officers of Downey attend various sessions of the Board meetings.

6. Director Orientation and Continuing Education

All new directors participate in director orientation, which typically is conducted soon after new directors are nominated or elected. The orientation will include presentations by management to familiarize new directors with Downey's strategic plans; its significant financial, accounting and risk management issues; its compliance programs; its codes of business conduct and ethics; its principal officers; and its internal and independent auditors. In addition, the orientation may include visits to Downey's headquarters. All other directors also are invited to attend the orientation programs available for new directors.

7. CEO Evaluation and Management Succession

The Compensation Committee will conduct an annual review of the CEO's performance, as set forth in the committee's charter. The Board will review the Compensation Committee's report to ensure that the CEO is providing strong leadership for Downey in the long- and short-term, taking into account the performance of Downey.

8. Annual Performance Evaluation

The Board will conduct an annual evaluation to determine whether it and the various Board committees are functioning effectively. The Nominating and Corporate Governance Committee will coordinate the process.