

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 permitting 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 and Director Lester Smull being exempted from the policy through April 22, 2009.

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 stockholders. 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.