

DOWNEY FINANCIAL CORP.

CHARTER FOR THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

I. Purpose of the Committee

Downey's Compensation Committee 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 Committee's recommendations regarding Director and Downey employee compensation, including Downey's executive compensation and incentive compensation plans, and to produce an annual report on executive compensation for DFC's proxy statement, in accordance with applicable rules and regulations.

II. Membership

1. Qualifications. The Committee shall be comprised of three or more Directors, all of whom must qualify as independent under the listing standards of the New York Stock Exchange ("NYSE"), with the exact number to be determined by the Board. Members of the Committee must also qualify as "non-employee directors" within the meaning of Rule 16b-3(b)(3) promulgated under the Securities Exchange Act of 1934, as amended, and "outside directors" within the meaning of Regulation §1.162-27(e)(3) promulgated under the Internal Revenue Code of 1986, as amended, and must satisfy any other necessary standards of independence under the federal securities and tax laws.
2. Term, Removal; Vacancies. The members of the Committee shall serve until their successors are duly elected and qualified by the Board. No member may be removed except by the vote of a majority of the DFC Directors. The Board shall fill any vacancies on the Committee.
3. Chair. The Board will also appoint one of the members of the Committee to serve as Chair. The Committee 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 Committee may appoint, by the majority vote of the Committee, from among their members, a person to preside at their meetings.
4. Delegation. The Committee may form and delegate authority to subcommittees when appropriate.

5. Outside Resources. The Committee 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 Committee, for the payment of any such fees. The Committee may request any officer or employee of Downey or Downey's outside attorneys, accountants or consultants to attend a meeting of the Committee or to meet with any members or consultants of the Committee.

III. Duties and Responsibilities

The following functions shall be common recurring activities of the Committee in carrying out its purpose. These functions should serve as a guide; the Committee 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 Committee shall:

1. Review periodically trends in executive compensation and the competitiveness of the Company's executive compensation programs to ensure (a) the attraction and retention of corporate officers, (b) the motivation of corporate officers to achieve the Company's business objectives, and (c) the alignment of the interests of key leadership with the long-term interests of the Company's stockholders.
2. Review at least annually the goals and objectives of Downey's executive compensation plans, and the plans themselves, and recommend that the Board adopt or amend such goals, objectives and compensation plans as the Committee deems appropriate.
3. Review periodically the benefit programs (e.g. retirement, medical, dental, vision, life insurance and similar programs) which Downey makes available to employees and Directors and recommend that the Board adopt or amend such benefit programs, or benefits providers, as the Committee deems appropriate.
4. Perform such duties and responsibilities as may be assigned to the Committee under the terms of any executive compensation plan, incentive-compensation plan, stock option or other equity-based plan, severance pay plan or any other employee benefit plan of Downey.
5. Evaluate annually the performance of the Chief Executive Officer of Downey in light of the goals and objectives of Downey's executive compensation plans and, together with other Independent Directors as directed by the Board, set the Chief Executive Officer's compensation level, based on such evaluation.
6. Annually review and approve or recommend to the Board for approval, compensation for all of Downey's other Executive Officers, as defined by SEC regulations.
7. Review and approve the compensation of any person who is being hired or promoted by Downey so as to become an Executive Officer, except for the compensation of any person who is hired or promoted to become the Chief Executive Officer.
8. With respect to all other officer positions, the salaries and compensation paid by Downey shall conform to the compensation benefit program guidelines developed by the Committee and approved by the Board of Directors. The Chief Executive Officer, or such subordinate officers as may be

expressly delegated in writing by the Chief Executive Officer, shall set the salaries and compensation for all employees of Downey other than Executive Officers.

9. Review and approve any employment, severance, change in control or termination agreements to be made with any Executive Officers.
10. Review prerequisites or other personal benefits to Executive Officers and recommend any changes to the Board.
11. Issue an annual report on executive compensation for inclusion in DFC's proxy statement, in accordance with applicable rules and regulations.
12. Oversee, review and approve the preparation of the "Compensation Discussion and Analysis" for inclusion in DFC's proxy statement and other required filings in accordance with applicable rules and regulations.
13. Meet as frequently as the Committee deems necessary. The operation of the Committee, 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.
14. Review the adequacy of the Committee's Charter and recommend changes as necessary.
15. Evaluate the Committee's performance annually.
16. Make regular reports to the Boards.