



Office of Thrift Supervision

FACT SHEET

1700 G Street, N.W., Washington, D.C. 20552 • Telephone (202) 906-6677 • www.ots.treas.gov

FOR RELEASE:
Friday, Nov. 21, 2008
OTS 08-057A

CONTACT:
William Ruberry
(202) 906-6677

OTS Fact Sheet on Downey Savings and Loan Association

Institution Profile

- Total assets as of September 30, 2008: \$12.8 billion
- Headquarters: Newport Beach, CA
- Branches: 175
- Employees: 2,199

Financial Details (September 30, 2008)

- Retail deposits: \$9.7 billion or 75.5 percent of total liabilities and capital
- Loan portfolio: Single-family mortgage (\$ 11.0 billion or 86.1 percent of total assets), option ARMs (\$5.8 billion or 45.3 percent of total assets), nonmortgage loans (\$9.4 million or 0.1 percent of total assets), and construction loans (\$45.7 million or 0.4 percent of total assets)
- Nonaccrual loans: \$1.5 billion or 11.6 percent of total assets

Institution History

- OTS regulation of Downey began on October 1, 1957 as a California-licensed savings and loan association.
- In 1995, Downey converted to a federally chartered savings bank.
- Downey was a stock institution, owned by Downey Financial Corporation (DFC).
- The FDIC insures the Bank's deposits through its Deposit Insurance Fund.

Key Facts and Events

- Downey had a concentration of nontraditional mortgages, including payment option adjustable rate mortgages (ARMs) and hybrids. The majority of the loans in this portfolio were originated by mortgage brokers and were based on the borrowers'

stated incomes. Many of the borrowers utilized the negative amortization features of the option ARM loans and borrowers were exposed to significant payment adjustments when the initial adjustable loan rates reset.

- The bank discontinued option ARM and stated income lending, but the loans already in portfolio are experiencing high delinquency levels and causing material negative earnings.
- The Bank posted a net loss of \$50.9 million for 2007 because of necessary provisioning for losses on loans. In 2008, the Bank posted net losses of \$246 million for the first quarter, \$217 million for the second quarter, and \$74 million in the third quarter. The projected cumulative losses for the loan portfolio were substantial.
- On July 24, 2008, Downey announced that Chairman of the Board Maurice McAlister and CEO Daniel Rosenthal resigned.
- In September 2008, Charles Rinehart was hired as CEO.
- The Bank had undertaken extensive efforts to attract strategic buyers or investors. Beginning in July 2008, Downey engaged an investment banker to widely market the Bank. Capital raising efforts were not successful.
- Downey was likely to incur additional losses that would deplete all or substantially all of its capital. There was no reasonable prospect for Downey to remain “adequately capitalized” without Federal assistance. On November 21, 2008, OTS closed Downey and appointed the FDIC as receiver.

Recent OTS Enforcement/Supervisory Actions

- August 30, 2007 – OTS Cease and Desist Order becomes effective. The C&D relates to Bank Secrecy Act deficiencies identified during an examination.
 - July 15, 2008 – Sent a Troubled Condition Letter to the Bank
 - July 30, 2008 – Issued a comprehensive examination report with ratings downgrades.
 - September 5, 2008 – Issued a Cease and Desist Order.
 - November 17, 2008 – Rejected a Business Plan that Downey submitted in response to the C&D Order and issued additional rating downgrades.
-
-

OTS Profile

- Established - 1989
- Thrift institutions supervised as of September 30, 2008 - 818
- Thrift industry assets supervised as of September 30, 2008 - \$1.18 trillion
- OTS employees - 1,076