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Lillian E. Gavin
Executive Vice President

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Manager, Dissemination Branch
Information Management and Service Division
Office of Thrift Supervision
1700 "G" Street, NW
Washington, D.C. 20552

Re: Notice of Proposed Rule – Savings and Loan Holding Companies Notice of Significant Transactions or Activities and OTS Review of Capital Adequacy

Dear Ladies and Gentlemen:

Downey Savings and Loan Association, F.A. ("Downey Savings" or "Association"), is headquartered in Newport Beach, California, with assets over $10 billion. Downey Savings' holding company (Downey Financial Corporation) is a unitary savings and loan holding company, and the Association is its primary asset. We respectfully submit our comments on the Savings and Loan Holding Companies Notice of Significant Transactions or Activities and the OTS Review of Capital Adequacy proposal ("proposal").

Overall, we strongly object to the proposal and the overly burdensome notification requirements it seeks to impose on well-managed savings and loan holding companies. In its current form, the proposal attempts to replace sound business management with regulatory management. We agree with the OTS's assessment that holding company transactions may have a significant impact on the insured subsidiary's financial health. Nonetheless, we believe that the OTS currently has the necessary tools to effectively supervise and monitor the financial strength of savings and loan associations and their holding companies. Existing mechanisms include recurring and timely examinations of savings and loan associations and their holding companies, financial reports submitted to the OTS, ongoing communications with regulatory staff and, in the case of public companies, the required public filings.

The OTS's concerns over the few instances of corporate oversight ineffectiveness do not merit the proposed requirements and resulting competitive disadvantage to those well managed savings and loan holding companies. For instance, the proposed notification requirements would significantly impair the timely and efficient execution of capital markets transactions. The proposal severely limits savings and loan holding companies' ability to take advantage of favorable conditions in the capital markets; thus, putting these holding companies at a competitive disadvantage to other financial institutions, such as bank holding companies, that have no such requirement. The discretionary authority vested to the regional offices would also

result in varying standards applied to savings and loan holding companies and may result in disparate treatment thus further increasing competitive disadvantage even amongst other savings and loan holding companies.

The OTS's concern that holding companies may not always act in the best interest of the savings and loan is valid. However, in the instance of a holding company whose primary asset is the insured institution, the best interest of the holding company is directly proportional to the well being of the savings and loan. Therefore, the holding companies' actions are structured to enhance the financial strength of the insured subsidiary.

Finally, in the past, and in the proposal, the OTS has chosen not to define or establish a holding company minimum consolidated capital ratio. It appears that the purpose is to allow the OTS, and the associations it regulates, flexibility. Nonetheless, the OTS's proposal does have the effect of imposing a regulatory capital standard as it seeks to exempt companies with a consolidated tangible capital ratio of ten percent or more from the notification requirements. In the proposal, the OTS acknowledges that the Federal Reserve Bank ("FRB") does not impose an advance notice requirement, because the FRB has capital adequacy requirement, thus making advance notice requirements unnecessary. If such preemption is to exist, then the OTS should consider to module the capital exemption to follow the FRB's capital standards. Further, the OTS's definition of tangible capital for the savings and loans holding company should be further refined to treat trust preferred securities as capital securities, as is the case in the FRB's capital requirements for bank holding companies.

We appreciate your consideration of these comments.

Very truly yours,

Lillian E. Gavin
Executive Vice President
Director of Compliance
and Risk Management