UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SAMUEL BORGER, on behalf of himself and all others similarly situated, Plaintiff,	:	ECF CASE
v.	:	**CLASS ACTION COMPLAINT**
DORAL FINANCIAL CORP., SALOMON LEVIS, ZOILA LEVIS, RICHARD F. BONINI, and RICARDO MELENDEZ, Defendants.	:	JURY TRIAL DEMANDED

Plaintiff Samuel Borger ("Plaintiff"), individually and on behalf of all other persons similarly situated, by his undersigned attorneys, for his complaint against defendants, alleges the following based upon personal knowledge as to himself and his own acts, and information and belief as to all other matters, based upon, inter alia, the investigation conducted by and through his attorneys, which included, among other things, a review of the defendants' public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding Doral Financial Corp. ("Doral" or the "Company"), securities analysts' reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal class action on behalf of persons who purchased or otherwise acquired the securities of Doral securities between January 17, 2001 through April 19, 2005, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. § 78j(b) and 78t(a)), and Rule l0b-5 promulgated thereunder (17 C.F.R. §240.l0b-5).

3. This Court has jurisdiction over the subject matter of this action pursuant to §27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

4. Venue is proper in this Judicial District pursuant to §27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. §1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this Judicial District. Additionally, the Company maintains several bank branches in this Judicial District.

5. In connection with the acts, conduct and other wrongs alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

6. Plaintiff, as set forth in the accompanying certification incorporated by reference herein, purchased Doral securities at artificially inflated prices during the Class Period and has been damaged thereby.

7. Defendant Doral is a Puerto Rico corporation with its principal executive offices located at 1451 Franklin D. Roosevelt Ave., San Juan, Puerto Rico, 00920. Doral is a financial services company engaged in mortgage banking, including thrift operations, institutional securities operations and insurance agency activities. The Company conducts its mortgage banking activities in Puerto Rico through four mortgage banking units. In the United States, it conducts its mortgage banking activities through its subsidiary, Doral Money, Inc. (Doral Money). Doral Financial operates 58 mortgage-banking offices in Puerto Rico and one office in the United States. Doral is also the parent company of Doral Bank FSB, a federal savings bank based in New York City.

8. Defendant Salomon Levis ("Salomon Levis") was, at all relevant times, Chairman of Doral's Board of Directors, Chief Executive Officer, and a Director of Doral.

9. Defendant Zoila Levis ("Zoila Levis") has been President and Chief Operating Officer of Doral Financial since August 1991, and at all relevant times a Director of Doral Bank, Doral Insurance Agency, Inc. and Doral Securities, Inc.

10. Defendant Richard P. Bonini ("Bonini") was, until December 2003, the Chief Financial Officer of the Company. At all relevant times, he has been the Secretary and a member of the Board of Directors

11. Defendant Ricardo Melendez ("Melendez") was, from 1995 to December 2003,

Doral's Principal Accounting Officer. Since January 2004, he has been the Chief Financial Officer of the Company.

12. Defendants Salomon Levis, Zoila Levis, Bonini and Melendez are collectively referred to hereinafter as the "Individual Defendants." During the Class Period, each of the Individual Defendants, as senior executive officers and/or directors of Doral, was privy to non-public information concerning its business, finances, products, markets and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded the fact that adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

13. Because of the Individual Defendants' positions with the Company, they had access to adverse undisclosed information about the Company's business, operations, operational trends, financial statements, markets and present and future business prospects via access to internal corporate documents (including the Company's operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith.

14. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the

Company's public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of defendants identified above. Each of the above officers of Doral, by virtue of his or her high-level position with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels and was privy to confidential proprietary information concerning the Company and its business, operations, growth, financial statements, and financial condition, as alleged herein. Said defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware, or recklessly disregarded, that the false and misleading statements were being issued regarding the Company, and approved or ratified these statements, in violation of the federal securities laws.

15. As officers and controlling persons of a publicly-held company whose securities were and are registered with the SEC pursuant to the Exchange Act, and was traded on the New York Stock Exchange ("NYSE") and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate accurate and truthful information promptly with respect to the Company's financial condition and performance, growth, operations, financial statements, business, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company's publicly-traded securities would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

16. The Individual Defendants participated in the drafting, preparation, and/or

approval of the various public and shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with Doral, each of the Individual Defendants had access to the adverse undisclosed information about Doral's financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about Doral and its business, issued or adopted by the Company, materially false and misleading.

17. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

18. Each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Doral securities by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme (i) deceived the investing public regarding Doral's business, operations, management and the intrinsic value of Doral securities; and (ii) caused Plaintiff and other members of the Class to purchase Doral securities at artificially inflated prices.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

19. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired the securities of Doral between January 17, 2001 through April 19, 2005 (the "Class Period"), and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

20. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Doral's securities were actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Doral or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

21. Plaintiff's claims are typical of the claims of the members of the Class, as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

22. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

23. Common questions of law and fact exist as to all members of the Class and

predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Doral; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

24. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impraCticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

SUBSTANTIVE ALLEGATIONS

25. As part of its mortgage business, Doral generates fixed rate nonconforming mortgage loans, pools them and sells most of them on a floating rate basis. Upon sale, the Company capitalizes and records for accounting purposes a floating rate interest-only strip ("IO Strip"). This IO Strip represents the excess spread between the fixed rate the Company receives on the underlying mortgage loans and the floating rate based on 90 day LIBOR (London interbank offered rate) it pays to investors.

26. The Company also recognizes gain on sale of mortgages as part of these transactions. In the case of the floating rate IO Strips, the recorded gain on sale represents the estimated present value of the excess interest spread, discounted over the expected life of the underlying mortgages, using the prepayment experience of the mortgage portfolio to calculate estimated life. If short-term interest rates increase, the spread received on the Company's retained interest decreases and adversely affects the value of the IO Strips.

27. On January 17, 2001, Doral announced its results for its 2000 fiscal year for the year ended December 31, 200. The Company reported earnings of $84.7 million, or $1.85 per diluted common share, compared with earnings of $67.9 million, or a $1.50 per share, for the year-earlier period.

28. For the year 2000, net gain on mortgage loan sales and fees was $134.3 million, and the value of its securities available-for-sale, which includes the IO Strips, was approximately $236 million. Commenting on Doral's 2000 results, defendant Salomon Levis stated that "year 2000 was a historic year for Doral Financial. Every major segment of Doral Financial made important contributions to the Company's excellent results. Assets under management grew to a new high in excess of $14 billion and record levels were achieved in earnings, capital, loan production, deposits, mortgage servicing portfolio, and other areas." Salomon Levis stated that, "we are optimistic that 2000 has laid the foundation for even greater achievements during 2001 and subsequent years."

29. Salomon Levis further stated that "[w]e are bullish and excited about Doral Financial's opportunities and prospects for the year 2001. We look forward to continued strong performances from our traditional activities as well as contributions from new activities. . . . .

We are committed to continue to enhance shareholder value."

30. On January 18, 2001, Doral's stock closed at $9.27 per share on a split adjusted basis.

31. On March 26, 2001, Doral filed with the SEC its 2000 annual report on Form 10-K. The Company's 2000 Form 10-K was signed by defendants Salomon Levis and Bonini and reaffirmed the Company's financial results detailed in paragraph 25. Incorporated by reference in Doral's 2000 Form 10-K was a report by its auditor, PricewaterhouseCoopers LLP, that stated:

> In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes In shareholders' equity and cash flows present fairly, in all material respects, the financial position of Doral Financial Corp. and its subsidiaries at December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

32. On or about April 11, 2001, Doral reported "record" results for the first quartet ended/March 31, 2001. Doral reported that income before the cumulative effect of adopting FASB 133 was a "record" $28.1 million, or $0.60 per diluted share for the first quarter of 2001, compared to $20.3 million, or $0.45 per diluted share a year ago, representing an increase of 38%. Net interest income for the first quarter of 2001 was reported as $13.7 million compared to $11.0 million for the same period a year ago. Doral further stated that net gain on mortgage loan

sales increased to $45.9 million from $24.1 million for the comparable 2000 period, an increase of 90%. This was due to increased volume of mortgage loan originations and sales of mortgages, together with better pricing.

33. The Company further touted its ability to profit from interest rate changes by stating that, "With the recent reduction of interest rates and the potential for further reductions in the future the Company anticipates that it will be able to improve its net interest income."

34. On April 11, 2001, Doral's stock price closed at $12.67 per share on a split adjusted basis.

35. On or about May 15, 2001 Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended March 31, 2001. The March 31, 2001 10-Q substantially repeated Doral's financial results for the quarter ended March 31, 2001 as set forth above and was signed by defendants Salomon Levis, Bonini and Melendez.

36. On or about July 11, 2001, Doral reported "record" results for the second quarter and first half of 2001. Doral reported net income for the second quartet of 2001 amounted to a record $30.6 million, compared to $20.6 million for the second quarter of 2000, an increase of 49%. For the first six months of 2001, Doral reported income before the cumulative gain-effect of a change in accounting principle was a record $58.7 million, compared to $40.9 million for the same period a year ago, an increase of 44%. For the second quarter of 2001, consolidated earnings per diluted share was $0.65, compared to $0.46 per diluted share a year ago, which represents an increase of 41%. For the first half of 2001, consolidated earnings per diluted share before the cumulative gain-effect of a change in accounting principle was $1.25, compared to $0.92 per diluted share a year ago, an increase of 36%. Doral also reported net interest income

for the second quarter and first half of 2001 was $16.6 million and $30.3 million, respectively, compared to $10.6 million and $21.6 million for the same periods in the prior year. For the second quarter of 2001, Doral's total non-interest income increased by 35% compared to the second quarter of 2000. Net gain on mortgage-loan sales and fees increased to $45.5 million for the second quarter of 2001 from $31.6 million for the comparable 2000 period, an increase of 44%. For the first half of 2001, Doral's total non-interest income increased by 33% compared to the first half of 2000. Net gain on mortgage loan sales and fees was $91.4 million for the first half of 2000 compared to $55.8 million for the corresponding period a year ago, an increase of 64%. The increase in net gain on mortgage loan sales and fees for both the quarter and the first half of 2001 was due to increased volume of mortgage loan originations and sales of mortgages, together with better pricing.

37. On July 11, 2001, Doral's stock price closed at $13.51 per share on an adjusted basis.

38. On or about August 14, 2001, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended June 30, 2001. The June 30, 2001 10-Q substantially repeated Doral's financial results for the quarter ended June 30, 2001 as set forth above and was signed by defendants Salomon Levis, Bonini and Melendez.

39. On or about October 11, 2001, Doral reported "record" results for the third quarter and first nine months of 2001. The Company reported net income for the third quarter of 2001 of $36.8 million, compared to $21.0 million for the third quarter of 2000, an increase of 75%. For the first nine months of 2001, Doral's income before the cumulative gain-effect of a change in accounting principle was $95.5 million, compared to $61.9 million for the same period in the

prior year, an increase of 54%. For the third quarter of 2001, consolidated earnings per diluted share was $0.74, compared to $0.46 per diluted share in the prior year, representing an increase of 61%. For the first nine months of 2001, consolidated earnings per diluted share before the cumulative gain-effect of a change in accountng principle was $1.99, compared to $1.38 per diluted share in the prior year, an increase of 44%.

40. The Company further reported that, for the third quarter of 2001, Doral's total non-interest income increased by 32% compared to the third quarter of 2000. Net gain on mortgage loan sales and fees increased to $44.8 million for the third quarter of 2001 from $40.3 million for the comparable 2000 period, an increase of 11%. For the first nine months of 2001, Doral's total non-interest income increased by 32% compared to the first nine months of 2000. Net gain on mortgage loan sales and fees was $136.2 million for the first nine months of 2001 compared to $96.0 million for the corresponding period a year ago, an increase of 42%. Doral further stated that increase in net gain on mortgage loan sales and fees for both the quarter and the first nine months of 2001 was due to increased volume of mortgage loan originations and sales of mortgages, together with better pricing.

41. On October 11, 2001, Doral's stock closed at $15.51 per share on a split adjusted basis.

42. On or about November 14, 2001, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended September 30, 2001. The September 30, 2001 10-Q substantially repeated Doral's financial results for the quarter ended September 30, 2001 as set forth above and was signed by defendants Salomon Levis, Bonini and Melendez.

43. On January 16, 2002, Doral reported results for its fiscal year 2001 ended

December 31, 2001. The Company reported earnings for fiscal year 2001 of $137.9 million, or $2.82 per diluted common share, compared with earnings of $84.7 million, or $1.85 per diluted common share for the prior-year period. For the year 2001, net gain on mortgage loan sales and fees was $187.2 million, and the value of its securities available-for-sale, which includes the IO Strips, was approximately $928 million.

44. On January 17, 2002, Doral's stock closed at $13.70 per share on a split adjusted basis.

45. On March 22, 2002, Doral filed with the SEC its 2001 annual report on Form 10-K. The Company's 2001 Form 10-K was signed by defendants Salomon Levis and Bonini and reaffirmed the Company's financial results detailed in paragraph 32. Incorporated by reference in Doral's 2001 Form 10-K was a report by its auditor, PricewaterhouseCoopers LLP, that stated:

> In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Doral Financial Corp. and its subsidiaries at December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

46. On April 15, 2002, Doral reported further "record" results for the first quarter ended March 31, 2002. Doral reported net income for the first quarter of 2002 of a "record"

$46.5 million, compared to income of $28.1 million for the first quarter of 2001, an increase of 65%. For the first quarter of 2002 consolidated earnings per diluted share were $0.91, compared to $0.60 per diluted share for the first quarter of 2001, which represents an increase of 52%. Net interest income for the first quarter ended March 31, 2002 was $35.9 million compared to $13.7 million for the same period in the prior year. The Company stated that "[t]he increase in net-interest income reflects the positive effects of reductions in short-term interest rates on the Company's borrowing costs as well as the increase in interest earning assets.

47. Doral further reported that, for the first quarter of 2002, Doral's total non-interest income increased by 14% compared to the first quarter of 2001. Net gain on mortgage loan sales and fees, the main component of non-interest income, was $46.0 million for the first quarter of 2002 as compared to $45.9 million for the 2001 period.

48. The Company further reported that the volume of mortgage loan production for the first quarter of 2002 was $1.2 billion, compared to $915.0 million for the comparable 2001 period, an increase of 31%. "This is the highest mortgage production for any given quarter in the Company's history." The Company stated that, "[a]s a result of such strong production, the servicing portfolio increased to $10.4 billion as of March 31, 2002 compared to $10.0 billion as of December 31, 2001 and to $9.0 billion a year ago on March 31, 2001."

49. On April 16, 2002, Doral's stock closed at $14.44 per share on a split adjusted basis.

50. On or about May 15, 2002, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended March 31, 2002. The March 31, 2002 10-Q substantially repeated Doral's financial results for the quarter ended March 31, 2002 as set forth above and was signed

by defendants Salomon Levis, Bonini and Melendez.

51. On July 10, 2002, Doral reported "record" results for the second quarter and first half of 2002. Doral reported net income for the second quarter of 2002 amounted to a "record" $52.0 million, compared to $30.6 million for the second quarter of 2001, an increase of 70%. For the first six months of 2002, Doral Financial earned a record $98.5 million, compared to income of $58.7 million before the cumulative gain-effect of a change in accounting principle for the same period a year ago, an increase of 68%. For the second quarter of 2002 consolidated earnings per diluted share were $1.01, compared to $0.65 per diluted share a year ago, which represents an increase of 55%. For the first half of 2002, consolidated earnings per diluted share were $1.92, compared to $1.25 per diluted share before the cumulative gain-effect of a change in accounting principle for the first six months of 2001, an increase of 54%.

52. The Company reported that, for the second quarter of 2002, Doral's total non-interest income increased by 22% compared to the second quarter of 2001. Net gain on mortgage loan sales and fees, the main component of non-interest income, was $58.2 million for the second quarter of 2002 as compared to $45.5 million for the 2001 period. For the first half of 2002, Doral Financial's total non-interest income increased by 18% compared to the first half of 2001. Net gain on mortgage loan sales and fees was $104.2 million for the first half of 2002 compared to $91.4 million for the corresponding period a year ago.

53. In Doral's July 10, 2002 press release, Salomon Levis stated, "We are extremely pleased with the excellent performance experienced during the second quarter of 2002 which builds on the record performance of 2001 and further strengthens our optimism with respect to the future. I am particularly proud of Doral's excellent efficiency ratio. I would also like to

emphasize that Doral's strong balance sheet and the high quality of its assets, comprised mostly of Triple A rated investments and residential mortgage loans, have been key elements in Doral's consistent performance during varying economic cycles."

54. On July 11, 2002, Doral's stock closed at $14.72 per share on a split adjusted basis.

55. On or about August 14, 2002, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended June 30, 2002. The June 30, 2002 10-Q substantially repeated Doral's financial results for the quarter ended June 30, 2002 as set forth above was signed by defendants Salomon Levis, Bonini and Melendez.

56. On or about September 18, 2002, Salomon Levis sought to distinguish Doral from other financial institutions in connection with recent drops in interest rates, saying it was in fact an opportunity for Doral:

> Mr. Salomon Levis, Chairman of the Board and Chief Executive Officer of Doral Financial Corporation (Nasdaq:DORL), stated that contrary to what has been perceived in relation to certain U.S. mortgage institutions, the impact of the recent drop in mortgage rates represents an opportunity for Doral Financial to realize additional profits.
>
> Mr. Levis explained that reduction in interest rates have led to growth in mortgage volume. Declines in rates also increase the value of the Company's tax-exempt mortgage backed securities and U.S. treasuries, as well as its residential mortgage loan portfolio. Lower rates have also resulted in higher gains on sale of mortgage loans.
>
> Mr. Levis concluded by reiterating his optimism for the remainder of the year 2002 and the future as expressed in Doral's earnings release dated July 10, 2002 for the second quarter and six months ended June 30, 2002.

57. On September 18, 2002, Doral's stock closed at $16.26 per share on a split adjusted basis.

58. On October 10, 2002, Doral reported record results for the third quarter and first nine months of 2002, touting the results as "the 19th consecutive quarter [Doral] achieve[d] record earnings."

59. The Company reported that

> Net income for the third quarter of 2002 amounted to a record $58.3 million, compared to $36.8 million for the third quarter of 2001, an increase of 58%. For the first nine months of 2002, Doral Financial earned a record $156.8 million, compared to income of $95.5 million (before the cumulative gain-effect of a change in accounting principle) for the same period a year ago, an increase of 64%. For the third quarter of 2002 consolidated earnings per diluted share were $0.74, compared to $0.49 per diluted share a year ago, which represents an increase of 51%. For the first nine months of 2002, consolidated earnings per diluted share were $2.02, compared to $1.33 per diluted share (before the cumulative gain-effect of a change in ccounting principle) for the first nine months of 2001, an increase of 52%.
>
> Net interest income for the third quarter and first nine months of 2002 was $39.2 million and $112.8 million, respectively, compared to $24.7 million and $55.0 million for the same periods a year ago. The increase in net interest income reflects the positive effects of reductions in interest rates as well as the increase in interest earning assets.
>
> The volume of mortgage loan production for the third quarter of 2002 was $1.3 billion, compared to $1.1 billion for the comparable 2001 period, an increase of 18%. This is the highest mortgage loan production for any given quarter in the Company's history. The volume of mortgage loan production for the first nne months of 2002 was $3.8 billion, compared to $3.1 billion for the corresponding 2001 period, an increase of 23%. The increase in mortgage loan production was driven principally by the continued high demand for new housing in Puerto Rico. While refinancing activity has naturally increased as a result of lower interest rates, the increase was substantially lower than in the mainland United States. In Puerto Rico refinancing loans are generally in smaller loan amounts and tend to be driven more by debt consolidation considerations rather than interest rate savings. For the first nine months of 2002, 55% of the Company's internal loan originations consisted of refinanced loans, which is consistent with Doral Financial's historical experience. As a result of such strong mortgage loan production, the servicing portfolio increased to $ 10.9 billion as of September 30, 2002 compared to $10.0 billion as of December 31, 2001 and to $9.7 billion a year ago on September 30, 2001.

For the third quarter of 2002, Doral Financial's total non-interest income increased by 45% to $68.0 million, from $47.0 million for the third quarter of 2001. Net gain on mortgage loan sales and fees, the main component of non-interest income, was $53.0 million for the third quarter of 202 as compared to $44.8 million for the 2001 period. For the first nine months of 2002, Doral Financial's total non-interest income increased by 27% compared to the first nine months of 2001. Net gain on mortgage loan sales and fees was $157.2 million for the first nine months of 2002 an increase of $21.0 million from $136.2 million for the corresponding period a year ago.

Gain on trading activities of $4.8 million for the third quarter of 2002 includes the favorable impact on earnings of marking to market the Company's portfolio of trading securities, which consists primarily of tax exempt Puerto Rico GNMA securities, and is net of losses on derivatives used as hedges for risk management purposes.

Commission and fee income for the quarter and nine months ended September 30, 2002, were $5.7 million and $15.2 million, respectively, representing increases of 13% and 18%, respectively, with the comparable periods of 2001. The increases in commission and fee income reflected the contributions made by the Company's insurance agency and broker-dealer subsidiaries.

For the quarter ended September 30, 2002, net servicing loss was $5.6 million compared to a loss of approximately $704,000 for the third quarter of 2001. For the nine months ended September 30, 2002, net servicing loss was approximately $6.3 million compared to a gain of $3.8 million for the corresponding period of 2001. The decreases in servicing income for both the quarter and nine month periods were due to amortization and impairment charges related to increases in mortgage prepayment rates, resulting from the reduction in interest rates. The Company recorded an impairment charge of $7.5 million during the third quarter of 2002. The net decrease in servicing income was more than offset by increases in gain on mortgage loan sales and fees, gain on sale of securities and other sources of revenue which benefited from the lower interest rate scenario.

The Company's mortgage loan production has added a significant amount of recently originated mortgages particularly FHA/VA, Fannie Mae and Freddie Mac conforming loans to the Company's servicing portfolio. These loans have a lower weighted average interest rate than that of the existing mortgage servicing portfolio and should be subject to lower prepayment and therefore should extend the average life of the servicing portfolio. As noted above, the servicing portfolio increased to $10.9 billion as of September 30, 2002 from $9.7 billion a year ago.

60. On October 11, 2002, Doral’s stock closed at $16.69 per share on a split adjusted

basis, upo from $14.93 per share the previous day.

61. On or about November 14, 2002, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended September 30, 2002. The September 30, 2002 10-Q substantially repeated Doral's financial results for the quarter ended September 30, 2002 as set forth above and was signed by defendants Salomon Levis, Bonini and Melendez.

62. Defendants Salomon Levis and Bonini certified Doral's quarterly financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

63. On January 15, 2003, Doral reported its 2002 fiscal year results. Diluted earnings per share rose 51% to $2.84 pet share compared with $1.88 in 2001. Net income for 2002 was $221 million compared with $137.9 million fix 2001, an increase of 49%. For the year 2002, net gain on mortgage loan sales and fees was $220.6 million, and the value of its securities available-for-sale, which includes the IO Strips, was approximately $862 million.

64. Defendant Salomon Levis stated that the financial results for 2002 were "truly outstanding," with the Company purportedly achieving record earnings, assets and capital. Salomon Levis further touted the Bank's reported "record" Return on Assets of 2.97% and Return on Equity of 29.08% for the year.

65. Salomon Levis also touted the increase in the Company's stock price as evidence of the Bank's superior performance. He stated that "[f]or the one year period ended December 31, 2002, Doral Financials common stock price increased by 37% compared to a decrease of 3.88% for the S&P 500 Banks Index, and has gone up approximately 238% in the last five years compared to a reduction of 6.22% in such S&P index. Also in the past 10 years, Doral Financials stock price has increased by approximately 1,460% while the S&P 500 Banks Index increased by

172.77%."

66. He concluded by stating that "[w]e look ahead to 2003 and subsequent years with optimism anticipating continued strong performance in our principal business segments: mortgage banking and banking as well as increased fee income from the institutional broker-dealer and insurance agency activities." On January 16, 2003, Doral's stock closed at $13.07 on a split-adjusted basis.

67. On January 15, 2003, Doral's stock closed at $118.50 per share on a split adjusted basis.

68. On March 28, 2003, Doral filed with the SEC its 2002 annual report on Form 10-K. The Company's 2002 Form 10-K was signed by defendants Salomon Levis, Bonini, and Melendez and reaffirmed the Company's financial results detailed in paragraph 25**.** Incorporated by reference In Doral's 2002 Form 10-K was a report by its auditor, PricewaterhouseCoopers LLP, that stated:

> In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Doral Financial Corp. and its subsidiaries at December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the tree years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

69. Defendants Salomon Levis and Bonini certified Doral's 2002 financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

70. On April 10, 2003, Doral reported "record" results for the first quarter ended March 31, 2003, touted as "the 21st consecutive quarter it achieved record earnings." Net income for the first quarter of 2003 was reported as a "record" $70.0 million, compared to $46.5 million for the first quarter of 2002, an increase of 51%. For the first quarter of 2003 consolidated earnings per diluted share were $0.90, compared to $0.61 per diluted share for the first quarter of 2002, which represents an increase of 48%. For the first quarter of 2003, Doral reported non-interest income had increased by 84%, to $91.4 million, from $49.6 million for the first quarter of 2002. Net gain on mortgage loan sales and fees, the main component of non-interest income, was reported as $77.3 million for the first quarter of 2003, as compared to $46.0 million for the 2002 period.

71. The Company also touted its hedging and risk management capabilities by stating that "Gain on trading activities of $4.9 million for the first quarter of 2003 includes the favorable impact on earnings due to trading of securities and is net of hedging costs on derivatives used for risk management purposes."

72. Further, defendant Salomon Levis stated as follows:

> We are very pleased with the excellent results for the first quarter of 2003 and with the contribution made by each of Doral's business segments in achieving these results. The Company once again surpassed historical records in mortgage loan production, mortgage servicing portfolio, deposits, assets, earnings, capital and in key financial ratios.

73. On April 10, 2003, Doral's stock closed at $23.13 per share on a split adjusted basis.

74. On or about May 15, 2003, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended March 31, 2003. The March 31, 2003 10-Q substantially repeated Doral's financial results for the quarter ended March 31, 2003 as set forth above and was signed by defendants Salomon Levis, Bonini and Melendez.

75. Defendants Salomon Levis and Bonini certified the quarterly financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

76. On or about July 10, 2003, Doral reported "record" results for the second quarter and first half of 2003, purportedly Doral's "22nd consecutive quarter it has achieved record earnings." Doral reported net income for the second quarter of 2003 of a "record" $75.0 million, compared to $52.0 million for the second quarter of 2002, an increase of 44%. For the first six months of 2003, Doral earned a "record" $145.0 million, compared to $98.5 million for the same period in the prior year, an increase of 47%. For the second quarter of 2003, consolidated earnings per diluted share were $0.96, compared to $0.67 for the second quarter of 2002, which represents an increase of 43%. For the first half of 2003, consolidated earnings per diluted share were $1.86, compared to $1.28 for the first six months of 2002, an increase of 45%. For the first six months of 2003 Doral Financial achieved a 3.31% return on assets. Doral also reported for the second quarter of 2003, Doral Financial's total non-interest income increased 72% to $99.2 million, from $57.8 million for the second quarter of 2002. Net gain on mortgage loan sales and fees, the main component of non-interest income, was $98.1 million for the second quarter of 2003 as compared to $58.2 million for the corresponding 2002 period. For the first half of 2003, Doral's total non-interest income increased 78% to $190.6 million compared to the first half of 2002. Net gain on mortgage loan sales and fees was $175.4 million for the first half of 2003

compared to $104.2 million for the corresponding period in the prior year.

77. On July 10, 2003, Doral's stock closed at $30.05 per share on a split adjusted basis.

78. On or about August 14, 2003, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended June 30, 2003. The June 30, 2003 10-Q substantially repeated Doral's financial results for the quarter ended June 30, 2003 as set forth above and was signed by defendants Salomon Levis, Bonini and Melendez.

79. Defendants Salomon Levis and Bonini certified Doral's quarterly financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

80. On or about October 13, 2003, Doral reported its purported "record" results for the third quarter and first nine months of 2003, touted as the "23rd consecutive quarter it has achieved record earnings." Net income for the third quarter of 2003 was reported as a "record" $81.7 million, compared to $58.3 million for the third quarter of 2002, an increase of 40%. For the first nine months of 2003, Doral earned a "record" $226.6 million, compared to $156.8 million or the same period a year ago, an increase of 45%. For the third quarter of 2003, consolidated earnings per diluted share were $1.05, compared to $0.74 for the third quarter of 2002, which represented an increase of 42%. For the first nine months of 2003, onsolidated earnings per diluted share were $2.91, compared to $2.02 for the first nine months of 2002, an increase of 44%. For the first nine months of 2003 Doral reported that it had achieved a 3.30% return on assets. Doral further reported that for the third quarter of 2003, its total non-interest income increased 63% to $110.9 million, from $68.0 million for the third quarter of 2002. Net gain on mortgage loan sales and fees, the main component of non-interest income, was $98.6

million for the third quarter of 2003 compared to $53.0 million for the corresponding 2002 period. For the first nine months of 2003, Doral Financial's total non-interest income increased 72% to $301.5 million compared to the first nine months of 2002. Doral's net gain on mortgage loan sales and fees was reported as $274.0 million for the first nine months of 2003 compared to $157.2 million for the corresponding period in the prior year.

81. Defendant Salomon Levis further touted Doral's performance as follows:

> It is a pleasure to once again report Doral's excellent performance for the third quarter and nine months ended September 30, 2003 which represents the 23rd consecutive quarter that Doral has achieved record earnings. The Company surpassed historical records in loan production, new housing financing, mortgage servicing portfolio, bank deposits both in Puerto Rico and New York, earnings, capital and in several key financial ratios.

82. On October 13, 2003, Doral's stock closed at $32.15 per share on a split adjusted basis.

83. On or about November 13, 2003, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended September 30, 2003. The September 30, 2003 10-Q substantially repeated Doral's financial results for the quarter ended September 30, 2003 as set forth above and was signed by defendants Levis, Bonini and Melendez.

84. Defendants Salomon Levis and Bonini certified Doral's quarterly financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

85. On January 14, 2004, Doral reported its 2003 fiscal year results. Diluted earnings per share rose 44% to $2.72 per share compared with $1.89 in 2002. Net income for 2003 was $321.3 million compared with $221 million for 2002, an increase of 45%. For the year 2003, net gain on mortgage loan sales and fees was $390.1 million, and the value of is securities available-for-sale, which includes the IO Strips, was approximately $2.85 billion.

86. Defendant Salomon Levis stated that "[w]e remain optimistic that 2004 will be another strong year for the Company. Even with the anticipation of higher interest rates, we expect greater profitability in 2004. We are committed to working hard and deliver to shareholders enhanced value on a consistent basis."

87. On January 15, 2004, Doral's stock closed at $30.95 per share on a split adjusted basis.

88. On March 11, 2004, Doral filed with the SEC its 2003 annual report on Form 10-K. The Company's 2003 Form 10-K was signed by defendants Salomon Levis, Bonini, and Melendez and reaffirmed the Company's financial results detailed in paragraph 41. Incorporated by reference in Doral's 2003 Form 10-K was a report by its auditor, PricewaterhouseCoopers LLP, that stated:

> In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Doral Financial Corp. and its subsidiaries at December 31, 2003 and 2002 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

89. Defendants Salomon Levis and Melendez certified Doral's 2003 financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

90. On or about April 5, 2004, Salomon Levis addressed concerns concerning the impact of potentially higher interest rates on Doral. In a Doral press rlease, Salomon Levis stated that contrary to what some analysts were predicting with respect to US-based mortgage lenders, "he did not believe that the recent increase in economic activity and the perception that interest rates would increase would have an adverse impact on the Company's operations. Mr. Levis stated that the anticipated increases in interest rates during 2004 represent an opportunity for Doral Financial to realize additional profits."

91. On April 6, 2004, Doral's stock closed at $33.35 per share, up from $32.51 per share the prior day, on a split adjusted basis.

92. On or about April 14, 2004, Doral reported further "record" results for the first quarter ended March 31, 2004, purportedly "the 25th consecutive quarter [Doral] ha[d] achieved record earnings." Net income for the first quarter of 2004 was reported as a "record" $103.6 million, compared to $70.0 million for the first quarter of 2003, an increase of 48%. For the first quarter of 2004, consolidated earnings per diluted share were reported as $0.86, compared to $0.60 for the first quarter of 2003, which represented an increase of 43%. For the first quarter ended March 31, 2004, Doral reported a return on assets (ROA) of 3.93%, compared to 3.24% a year ago and a return on common equity (ROE) of 35.56%, compared to 31.40% for the first quarter of 2003. Net interest income for the first quarter of 2004 was reported as $59.1 million, compared to $41.3 million for the same period a year ago, an increase of 43%. The increase in net interest income was attributed to higher average net interest earning assets.

93. Defendant Salomon Levis further touted Doral's results as follows:

We are very pleased with the excellent results for the first quarter of 2004, in

> which the Company surpassed $100 million of quarterly net income for the first time in its history. Each of Doral's business segments contributed in achieving these results. The Company once again established historical records in mortgage loan production, mortgage servicing portfolio, secured commercial lending, assets, deposits, earnings, capital and in key financial ratios. The quarter ended on a high note with the Company achieving its highest monthly loan production volume in its history during the month of March. We are now anticipating that loan production for the remainder of 2004 should be stronger than the first quarter and project over $7.5 billion for the year, well in excess of the $6.5 billion record levels of 2003. This substantial increase contrasts with anticipated US production for 2004, which is expected to fall well below 2003 levels.

94. On April 14, 2004, Doral's stock closed at $31.64 per share on a split adjusted basis.

95. On or about May 7, 2004, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended March 31, 2004. The March 31, 2004 10-Q substantially repeated Doral's financial results for the quarter ended March 31, 2004 as set forth above and was signed by defendants Salomon Levis and Melendez.

96. Defendants Salomon Levis and Melendez certified Doral's quarterly financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

97. On or about July 14, 2004, Doral reported "record" results for the second quarter and first half of 2004, touting these results as "the 26th consecutive quarter it has achieved record earnings." Doral's net income for the second quarter of 2004 was reported as a "record" $114.9 million, compared to $75.0 million for the second quarter of 2003, an increase of 53%. For the first six months of 2004, Doral reported a "record" $218.5 million, compared to $145.0 million for the same period in the prior year, an increase of 51%. For the second quarter of 2004, Doral's consolidated earnings per diluted share were reported as $0.96, compared to $0.64 for the second quarter of 2003, which represented an increase of 50%. For the first half of 2004, consolidated

earnings per diluted share were $1.82, compared to $1.24 for the first six months of 2003, a reported increase of 47%. For the first six months of 2004, Doral Financial achieved a return on assets (ROA) of 3.81%, compared to 3.31% a year ago and a return on common equity (ROE) of 36.18%, compared to 31.47% for the first half of 2003. Doral further reported net interest income for the second quarter of 2004 amounted to $66.6 million, compared to $39.9 million for the same period in the prior year, an increase of 67%. For the first six months of 2004, net interest income amounted to $125.7 million, compared to $81.2 million for the first half of 2003, an increase of 55%. Doral reported that the increase in net interest income resulted from higher net interest earning assets during the 2004 periods.

98. Doral further reported that non-interest income for the second quarter of 2004 increased 28% to $126.6 million, from $99.2 million for the second quarter of 2003. Net gain on mortgage loan sales and fees, the main component of non-interest income, was $130.6 million for the second quarter of 2004 compared to $98.1 million for the corresponding 2003 period. For the first half of 2004, Doral's total non-interest income increased 27% to $241.3 million compared to the first half of 2003. Net gain on mortgage loan sales and fees was $267.4 million for the first half of 2004 compared to $175.4 million for the corresponding period a year ago. The Company reported that the increase was principally due to increased volume of loan sales as a result of record mortgage loan production.

99. Salomon Levis again touted Doral's "record" results and its careful management of interest rates:

> We are delighted with the excellent record performance for the second quarter of 2004. Each of Doral's business segments contributed in achieving these results. The Company is carefully monitoring its interest rate management program to protect our assets and liabilities against rising interest rates. Our interest rate

> management program has proven successful under different interest rate environments and has been instrumental in Doral achieving 26 consecutive quarters of record earnings.

100. On July 14, 2004, Doral's stock closed at $35.29 per share on a split adjusted basis.

101. On or about August 9, 2004, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended June 30, 2004. The June 30, 2004 10-Q substantially repeated Doral's financial results for the quarter ended June 30, 2004 as set forth above and was signed by defendants Salomon Levis and Melendez.

102. Defendants Salomon Levis and Melendez certified Doral's quarterly financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

103. On or about October 13, 2004, Doral reported "record results" for the third quarter and first nine months of 2004, "the 27th consecutive quarter it has achieved record earnings." Doral reported net income for the third quarter of 2004 of a "record" $120.6 million, compared to $81.7 million for the third quarter of 2003, an increase of 48%. For the first nine months of 2004, Doral earned a "record" $339.1 million, compared to $226.6 million for the same period a year ago, an increase of 50%. For the third quarter of 2004, consolidated earnings per diluted share were $1.01, compared to $0.70 for the third quarter of 2003, which represented an increase of 44%. For the first nine months of 2004, consolidated earnings per diluted share were $2.83, compared to $1.94 for the first nine months of 2003, an increase of 46%. For the first nine months of 2004, Doral Financial achieved a return on assets (ROA) of 3.75%, compared to 3.30% a year ago and a return on common equity (ROE) of 36.63%, compared to 31.94% for the first nine months of 2003.

104. Doral further reported net interest income for the third quarter of 2004 of $69.9 million, compared to $42.9 million for the same period a year ago, an increase of 63%. For the first nine months of 2004, net interest income amounted to $195.6 million, compared to $124.1 million for the first nine months of 2003, an increase of 58%. The increase in net interest income resulted from higher net interest earning assets during the 2004 periods. Doral also reported that non-interest income for the third quarter of 2004 increased 18% to $130.9 million, from $110.9 million for the third quarter of 2003. Net gain on mortgage loan sales and fees, the main component of non-interest income, was $165.5 million for the third quarter of 2004 compared to $98.6 million for the corresponding 2003 period. For the first nine months of 2004, Doral's total non-interest income reportedly increased 23% to $372.2 million compared to the first nine months of 2003. Net gain on mortgage loan sales and fees was $432.9 million for the first nine months of 2004 compared to $274.0 million for the corresponding period in the prior year.

105. Defendant Salomon Levis commented on Doral's financial results as follows: "We are most pleased with the record performance for the third quarter of 2004. Each of Doral's business segments contributed in achieving our 27th consecutive quarter of record earnings."

106. On October 13, 2004, Doral's stock closed at $40.45 per share on a split adjusted basis.

107. On or about November 9, 2004, Doral filed with the SEC its quarterly report on Form 10-Q for the quarter ended September 30, 2004. The September 30, 2004 10-Q substantially repeated Doral's financial results for the quarter ended September 30, 2004 as set forth above and was signed by defendants Salomon Levis and Melendez.

108. Defendants Salomon Levis and Melendez certified Doral's quarterly financial results pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

109. On January 19, 2005, Doral reported its 2004 fiscal year results. Diluted earnings per share rose 46% to $3.95 per share compared with $2.70 in 2003. Net income for 2004 was $489.6 million compared with $321.3 million for 2003, an increase of 52%. For the year 2004, net gain on mortgage loan sales and fees was $98.8 million, and the value of its securities available-for-sale, which includes the IO Strips, was approximately $4.98 billion.

110. Defendant Salomon Levis described the Company's 2004 results as "truly outstanding," and further stated that "[e]ven though the market is anticipating higher interest rates, we expect that 2005 will be another year of challenges and opportunities for the Company. We remain optimistic and are committed to working hard and to deliver to our shareholders enhanced value on a consistent basis."

111. On January 19, 2005, Doral's stock closed at $43.82 per share on a split adjusted basis.

The Truth Begins to Emerge

112. The statements contained in ¶¶ 27-29, 31-33, 35-36, 38-40, 42-43, 45-48, 50-53, 56, 58-59, 61-66, 68-72, 74-76, 78-81, 83-86, 88-90, 92-93, 95-99, 101-105 and 107-110 were materially false and misleading when made because defendants failed to disclose that the Company used actual 90-day LIBOR rates instead of the forward LIBOR curve, which is customary, to value its floating rate IO Strips. As a result of such unusual methodologies, during the Class Period: (1) the Company's IO Strip portfolio was materially overvalued; (2) the Company's net income and net gain on mortgage loan sales were materially overstated; (3) the

Company's return on equity and return on capital were materially overstated; and (4) the Company's reported net capital was materially overstated. Defendants also failed to disclose to investors that the Company's risk management, hedging strategies, and internal controls were deficient and would not protect the value of Doral's IO Strip portfolio in a rising interest rate environment despite repeated reassurances to the contrary.

113. Doral's financial problems were first disclosed, in part, on January 19, 2005, when the Bank reported its fourth quarter and fiscal year 2004 results; Doral recorded a $97.5 million pretax impairment charge on its IO Strips as the result of an increase in interest rates, specifically a rise in LIBOR. The next day, Doral's stock dropped $5.45, or 11%, to $44.45. Doral's Chairman and CEO, Salomon Levis, minimized the write-down, calling the adjustment a "conservative" move to better prepare the Bank for a further rise in interest rates.

114. Several analysts questioned the hedging program used by Doral to safeguard the value of its investment portfolio, principally mortgage-backed securities and U.S. Treasuries, from an increase ii interest rates. In a research note, Andrew Collins, a bank analyst with Piper Jaffray, wrote that the fourth quarter write-don was an indication that the Hank's hedging strategy against interest rate changes may be flawed. In an e-mail response later that day, CEO Salomon Levis stated that the "write down in the fourth quarter is not related to an issue with the Hank's hedging program."

115. Contrary to the assertions of its CEO, Doral acknowledged in its Form 10-K and Annual Report for 2004, filed with the SEC on a about March 15 and 17, 2005, respectively, that there was a potential for trouble with both its hedging strategy and its reliance on IO Strips. In the Annual Report, Doral detailed for the first time the impact that higher interest rates would have

on the value of its IO Strip portfolio.

116. Based on the Annual Report, analysts and investors concluded that Doral had used overly aggressive assumptions in valuing its portfolio of IO Strips and that further impairments or write downs were possible. Impairments not only hurt the Bank's reported profits, but also impact the Bank's capital structure making it less robust than it currently appears. "We question the aggressive assumptions the Bank is using" to value the IO Strips, said another financial analyst Kathleen Bochman, in a research report. Additionally, Bochman said she is wary about the "effectiveness" of the hedges used by the Bank.

117. Analysts were also concerned about the sustainability of Doral's gain-on-sale margins the money that the Bank makes from selling off its mortgages. The creation of IO Strips is a large component of Doral's gain-on-sale and, as the yield curve flattens, the margin generated by creating IO Strips declines.

118. On March 16, 2005, both Wachovia Securities and Merrill Lynch downgraded the stock. And on March 18, 2005, Standard & Poor's lowered its outlook for the bank's long-term debt to negative from stable. S&P revised its outlook, which is often the precursor to a credit downgrade, after expressing "concern over the sustainability of the Bank's business model" and noting the increased risk "for lower quality earnings."

119. On March 16, 2005, the day after the filing of its 2004 Form 10-K, Doral's stock dropped $7.71 to $30.58; and on March 17, 2005, Doral's common stock fell an additional $4.89 to $21.50.. For the week, Doral's stock plummeted 48%. Since January 3, 2005, the price of Doral's common stock has dropped from $48.50 to $20.75.

120. On or about April 19, 2005, as reported in the *Business Wire*, Doral announced

that the Company had used an incorrect methodology to calculate the fair value of its portfolio of its IOs. The Company disclosed to investors for the first time to investors that the Company should have been using the forward LIBOR curve to value its IOs and Doral's gain from the sale of strips of the IOs. As a result, Doral announced that its previously reported interim and reported financial results for the periods from January 1, 2000 through December 31, 2004 could no longer be relied upon and the financial results for some or all of those periods could be restated:

> **Doral Financial Announces Restatement of Earnings Related to Floating Rate IO Valuation**
> Tuesday April 19, 10:01 am ET
>
> SAN JUAN, Puerto Rico--(BUSINESS WIRE)--April 19, 2005--Mr. Salomon Levis, Chairman of the Board and Chief Executive Officer of Doral Financial Corporation (NYSE:DRL - News), today announced that after consulting with various financial institutions and other firms with experience in valuation issues, the Company has determined that it is appropriate to correct the methodology used to calculate the fair value of its portfolio of floating rate interest only strips ("IOs"). The Company's preliminary estimate is that this correction will result in a decrease in the fair value of its floating rate IOs of between $400 million to $600 million as of December 31, 2004. The required adjustment cannot be taken as a charge in current period earnings but instead will have to be reflected in those periods during which the origination of floating rate IOs had a material impact on the Company's financial statements. The after-tax effect of the required adjustments as of December 31, 2004 is estimated to range between $290 million to $435 million. The Company has not yet determined how such net impact will be distributed among the affected periods. The required charge to income will be a non-cash item and will not reduce the amount of the Company's cash and cash equivalents as of December 31, 2004.
>
> Based on the above, the Company's management concluded that the previously filed interim and audited financial statements for the periods from January 1, 2000 through December 31, 2004, could be materially affected and, therefore, should no longer be relied on and that the financial statements for some or all of the periods included therein should be restated. The Company's management presented its conclusion to the Company's Audit Committee and Board of Directors. After a review of management's presentation and other pertinent facts and consulting with its independent counsel, the Company's Audit Committee and Board of Directors concurred with this decision. Management and the Audit

Committee met with PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, to discuss its preliminary revised estimate of the IO valuation and also discussed with them the Company's conclusion that a restatement is required. PricewaterhouseCoopers LLP has not yet performed audit procedures on the revised estimate.

As part of its mortgage business, the Company generates fixed rate non-conforming mortgage loans, pools them and sells most of them on a floating rate basis. Upon sale, the Company capitalizes and records for accounting purposes a floating rate IO. This IO represents the excess spread between the fixed rate the Company receives on the underlying mortgage loans and the floating rate based on 90 day LIBOR it pays to investors. The Company recognizes gain on sale of mortgages as part of these transactions. In the case of the floating rate IOs, the recorded gain on sale represents the estimated present value of the excess interest spread, discounted over the expected life of the underlying mortgages, using the prepayment experience of the mortgage portfolio to calculate estimated life. The Company has historically used the contractual or actual 90-day LIBOR rate at the end of each reporting period to compute the value of its IOs and gain on sale. The use of actual 90-day LIBOR rates instead of the forward LIBOR curve to value its floating rate IOs can have either a positive or negative impact on valuation depending on the relationship of existing 90-day LIBOR rates to the forward LIBOR curve at the time of valuation.

As noted above, after consulting with various financial institutions and valuation experts, the Company determined that its valuation model should incorporate the forward yield curve and that a substantial adjustment to the value of its floating rate IOs was required. The Company is working with First Manhattan Consulting Group, a risk management specialist, to assess its risk measurement and risk management techniques.

As a result of the restatement process, the Company will delay the release of its earnings for the first quarter of 2005. The Company stated that its objective was to release its unaudited earnings as soon as practicable but could not assure investors at this time when it would be in a position to release the restated results for prior periods and the results for the first quarter of 2005. As part of the restatement process, the Company will also be reviewing all the assumptions and processes used to value its IOs and mortgage servicing rights and to calculate the gains on sale as well as management's report on internal controls over financial reporting for 2004. The Company also stated that the outside directors had retained Latham & Watkins LLP as its independent counsel to review the facts and circumstances relating to the IO valuation issues identified by the Company.

121. On this news, shares of Doral fell to $15.74 per share on heavy volume.

UNDISCLOSED ADVERSE FACTS

122. The market for Doral securities was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, Doral securities traded at artificially inflated prices during the Class Period. The artificial inflation continued until Doral was forced to restate its financial results. Plaintiff and other members of the Class purchased or otherwise acquired Doral securities relying upon the integrity of the market price of Doral securities and market information relating to Doral and have been damaged thereby.

123. During the Class Period, the defendants materially misled the investing public, thereby inflating the price of Doral securities, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and misleading. These statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations.

124. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about Doral's business, accounting and financial results. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Doral and its business and operations, thus causing the Company's

securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein..

ADDITIONAL SCIENTER ALLEGATIONS

125. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in thc name of thc Company we materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding Doral, their control over, and/or receipt and/or modification of Doral's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Doral, participated in the fraudulent scheme alleged herein,

126. Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public. The ongoing fraudulent scheme described in this complaint could not have been perpetrated over a substantial period of time, as has occurred, without the knowledge and complicity of the personnel at the highest level of the Company, including the Individual Defendants.

127. The Individual Defendants had a strong incentive to inflate the Bank's net income and return on equity. According to Doral's 2004 Proxy Statement filed with the SEC on or about

March 15, 2005, Salomon Levis' employment agreement "provides for a cash incentive bonus equal to 15% of Doral Financial's adjusted net income over a minimum threshold of a 15% return on common stockholders' equity." As CEO, Bonini and Melendez were eligible to receive annual cash incentive bonuses up to 5% of Doral's adjusted net income over a minimum threshold of a 15% return on common stockholders' equity up to $625,000 for Bonini and $500,000 for Melendez From 2001 to the present, Salomon Levis, Bonini and Melendez received cash bonuses from the Company of $7.5 million, $660,000 and $435,000, respectively.

APPLICABILITY OF PRESUMPTION OF RELIANCE FRAUD-ON-THE-MARKET DOCTRINE

128. At all relevant times, the market for Doral securities was an efficient market for the following reasons, among others:

(a) Doral stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient market;

(b) As a regulated issuer, Doral filed periodic public reports with the SEC and the NYSE;

(c) Doral regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) Doral was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

129. As a result of the foregoing, the market for Doral securities promptly digested current information regarding Doral from all publicly-available sources and reflected such information in Doral's stock price. Under these circumstances, all purchasers of Doral securities during the Class Period suffered similar injury through their purchase of Doral securities at artificially inflated prices and a presumption of reliance applies.

NO SAFE HARBOR

130. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Doral who knew that those statements were false when made.

FIRST CLAIM
Violation Of Section 10(b) Of
The Exchange Act Against And Rule l0b-5
Promulgated Thereunder Against All Defendants

131. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

132. During the Class Period, defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase Doral securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

133. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for Doral securities in violation of Section 10(b) of the Exchange Act and Rule l0b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

134. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of Doral as specified herein.

135. These defendants employed devices, schemes, and artifices to defraud, while in

possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Doral value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Doral and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Doral securities during the Class Period.

136. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of his or her responsibilities and activities as a sen'or officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Court. Internal budgets, plans, projections and/or reports, (iii) each of these defendants enjoyed significant personal contact and familiarly with the other defendants and was advised of and had access to other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

137. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Doral's operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by defendants' overstatements and misstatements of the Company's business, operations and earnings throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

138. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Doral securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of Doral's publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by defendants but not disclosed in public statements by defendants during the Class Period, Plaintiff and the other members of the Class acquired Doral securities during the Class Period at artificially high prices and were damaged thereby.

139. At the time of said misrepresentations and omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the

other members of the Class and the marketplace known the truth regarding the problems that Doral was experiencing, which were not disclosed by defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their Doral securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

140. By virtue of the foregoing, defendants have violated Section 10(b) of the Exchange Act, and Rule l0b-5 promulgated thereunder.

141. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

SECOND CLAIM
Violation Of Section 20(a) Of
The Exchange Act Against the Individual Defendants

142. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

143. The Individual Defendants acted as controlling persons of Doral within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contend are false and misleading. The Individual Defendants were

provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

144. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

145. As set forth above, Doral and the Individual Defendants each violated Section 10(b) and Rule l0b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

(b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: April 29, 2005
New York, New York

By:____________________________________

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