

BROADWAY FINANCIAL CORP \DE\  
Form 10-Q  
May 14, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington D.C. 20549**  
**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-27464

**BROADWAY FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-4547287**  
(I.R.S. Employer  
Identification No.)

**4800 Wilshire Boulevard, Los Angeles, California**  
(Address of principal executive offices)

**90010**  
(Zip Code)

**(323) 634-1700**

(Registrant's telephone number, including area code)

## Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 1,742,765 shares of the Company's Common Stock, par value \$0.01 per share, were outstanding as of April 30, 2009.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets as of March 31, 2009 (unaudited) and December 31, 2008</u>	1
<u>Consolidated Statements of Operations and Comprehensive Earnings (unaudited) for the three months ended March 31, 2009 and 2008</u>	2
<u>Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2009 and 2008</u>	3
<u>Notes to Unaudited Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	8
Item 4. <u>Controls and Procedures</u>	12
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	13
Item 1A. <u>Risk Factors</u>	13
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	13
Item 3. <u>Defaults Upon Senior Securities</u>	13
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	13
Item 5. <u>Other Information</u>	13
Item 6. <u>Exhibits</u>	13
<u>Signatures</u>	14
Ex 31.1 <u>Section 302 Certification of CEO</u>	
Ex 31.2 <u>Section 302 Certification of CFO</u>	
Ex 32 <u>Section 906 Certifications of CEO and CFO</u>	

**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets**

	March 31, 2009 (Unaudited)	December 31, 2008
	<i>(Dollars in thousands, except per share amounts)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 11,650	\$ 7,476
Securities available for sale, at fair value	4,186	4,222
Securities held to maturity (fair value of \$21,938 at March 31, 2009 and \$22,805 at December 31, 2008)	21,564	22,792
Loans receivable held for sale, net	23,307	24,576
Loans receivable, net of allowance of \$4,075 and \$3,559	362,040	333,273
Accrued interest receivable	2,471	2,295
Federal Home Loan Bank (FHLB) stock, at cost	4,136	4,098
Office properties and equipment, net	5,538	5,535
Bank owned life insurance	2,346	2,323
Other assets	1,471	1,344
<b>Total assets</b>	<b>\$ 438,709</b>	<b>\$ 407,934</b>
<b>Liabilities and stockholders equity</b>		
Deposits	\$ 323,831	\$ 289,917
Federal Home Loan Bank advances	71,500	74,000
Junior subordinated debentures	6,000	6,000
Advance payments by borrowers for taxes and insurance	73	509
Deferred income taxes	510	469
Other liabilities	3,584	4,350
<b>Total liabilities</b>	<b>405,498</b>	<b>375,245</b>
<b>Stockholders Equity:</b>		
Senior preferred, cumulative and non-voting stock, \$1,000 par value, authorized, issued and outstanding 9,000 shares of Series D at March 31, 2009 and December 31, 2008; liquidation preference of \$9,000 at March 31, 2009 and December 31, 2008	8,963	8,963
Preferred stock discount	(671)	(702)
Preferred, non-cumulative and non-voting stock, \$.01 par value, authorized 1,000,000 shares; issued and outstanding 55,199 shares of Series A, 100,000 shares of Series B and 76,950 shares of Series C at March 31, 2009 and December 31, 2008; liquidation preference of \$552 for Series A, \$1,000 for Series B and \$1,000 for Series C at March 31, 2009 and December 31, 2008	2	2
Common stock, \$.01 par value, authorized 3,000,000 shares; issued 2,013,942 shares at March 31, 2009 and December 31, 2008; outstanding 1,742,765 shares at March 31, 2009 and December 31, 2008	20	20
Common stock warrant	723	723
Additional paid-in capital	12,255	12,240
Accumulated other comprehensive income, net of taxes of \$63 and \$22 at March 31, 2009 and December 31, 2008	95	32
Retained earnings-substantially restricted	15,291	14,878
Treasury stock-at cost, 271,177 shares at March 31, 2009 and December 31, 2008	(3,467)	(3,467)
<b>Total stockholders equity</b>	<b>33,211</b>	<b>32,689</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 438,709</b>	<b>\$ 407,934</b>

*See accompanying notes to unaudited consolidated financial statements.*

**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Consolidated Statements of Operations and Comprehensive Earnings****(Unaudited)**

	<b>Three Months Ended March 31, 2009      2008</b>	
	<i>(Dollars in thousands, except per share amounts)</i>	
Interest and fees on loans receivable	\$ 6,254	\$ 5,684
Interest on mortgage-backed securities	294	369
Interest on investment securities	13	16
Other interest income	34	100
<b>Total interest income</b>	<b>6,595</b>	<b>6,169</b>
Interest on deposits	1,725	1,667
Interest on borrowings	752	1,163
<b>Total interest expense</b>	<b>2,477</b>	<b>2,830</b>
Net interest income before provision for loan losses	4,118	3,339
Provision for loan losses	516	158
<b>Net interest income after provision for loan losses</b>	<b>3,602</b>	<b>3,181</b>
Non-interest income:		
Service charges	347	249
Net gains on mortgage banking activities	17	14
Provision for losses on loans held for sale	(105)	
Other	37	33
<b>Total non-interest income</b>	<b>296</b>	<b>296</b>
Non-interest expense:		
Compensation and benefits	1,626	1,447
Occupancy expense, net	345	333
Information services	198	172
Professional services	173	103
Office services and supplies	144	142
Other	340	301
<b>Total non-interest expense</b>	<b>2,826</b>	<b>2,498</b>
Earnings before income taxes	1,072	979
Income taxes	410	372
<b>Net earnings</b>	<b>\$ 662</b>	<b>\$ 607</b>
Other comprehensive income, net of tax:		

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10-Q

Unrealized gain on securities available for sale	\$ 104	\$ 39
Income tax effect	(41)	(16)
Other comprehensive income, net of tax	63	23
Comprehensive earnings	\$ 725	\$ 630
Net earnings	\$ 662	\$ 607
Dividends and discount accretion on preferred stock	(163)	(20)
Earnings available to common shareholders	\$ 499	\$ 587
Earnings per common share-basic	\$ 0.29	\$ 0.33
Earnings per common share-diluted	\$ 0.29	\$ 0.32
Dividends declared per share-common stock	\$ 0.05	\$ 0.05

*See accompanying notes to unaudited consolidated financial statements.*

**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<i>(Dollars in thousands)</i>	
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 662	\$ 607
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Provision for loan losses	516	158
Depreciation	107	97
Net amortization of premiums and discounts on loans purchased	(6)	(3)
Net amortization of deferred loan origination fees	(16)	(6)
Net amortization of premiums on mortgage-backed securities	4	9
Stock-based compensation expense	15	5
Net gains on mortgage banking activities	(17)	(14)
Provision for losses on loans held for sale	105	
Earnings on bank owned life insurance	(23)	(24)
FHLB stock dividends		(50)
Net change in:		
Loans receivable held for sale, net	1,181	(9,033)
Accrued interest receivable	(176)	(201)
Other assets	(127)	(77)
Other liabilities	(766)	232
<b>Net cash provided by (used in) operating activities</b>	<b>1,459</b>	<b>(8,300)</b>
<b>Cash flows from investing activities:</b>		
Available-for-sale securities:		
Maturities, prepayments and calls	142	197
Held-to-maturity securities:		
Maturities, prepayments and calls	1,222	2,280
Net change in loans receivable	(29,261)	(15,212)
Purchase of Federal Home Loan Bank stock	(38)	(772)
Additions to office properties and equipment	(110)	(137)
<b>Net cash used in investing activities</b>	<b>(28,045)</b>	<b>(13,644)</b>
<b>Cash flows from financing activities:</b>		
Net change in deposits	33,914	6,335
Proceeds from Federal Home Loan Bank advances		35,200
Repayments on Federal Home Loan Bank advances	(2,500)	(17,700)
Cash dividends paid	(218)	(109)
Purchases of treasury stock		(27)
Reissuance of treasury stock		2
Net change in advance payments by borrowers for taxes and insurance	(436)	(393)
<b>Net cash provided by financing activities</b>	<b>30,760</b>	<b>23,308</b>



Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10-Q

Net increase in cash and cash equivalents	4,174	1,364
Cash and cash equivalents at beginning of period	7,476	4,331
Cash and cash equivalents at end of period	\$ 11,650	\$ 5,695
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 2,485	\$ 2,811
Cash paid for income taxes	\$ 840	\$

*See accompanying notes to unaudited consolidated financial statements.*

**Table of Contents**

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**March 31, 2009**

**NOTE (1) Basis of Financial Statement Presentation**

The accompanying unaudited consolidated financial statements include Broadway Financial Corporation (the Company) and its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (the Bank). Also included in the unaudited consolidated financial statements is Broadway Service Corporation, a wholly owned subsidiary of the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q. These unaudited consolidated financial statements do not include all disclosures associated with the Company's consolidated annual financial statements included in its annual report on Form 10-K for the year ended December 31, 2008 and, accordingly, should be read in conjunction with such audited consolidated financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

**NOTE (2) Recent Accounting Pronouncements**

In April 2009, the FASB issued FSP SFAS No. 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, which amends and clarifies FASB Statement No. 141 (revised 2007), *Business Combinations*, to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of adoption of FSP SFAS No. 141 R-1 is dependent on future business combinations the Company may enter into.

In April 2009, the FASB issued FSP SFAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, to provide additional guidance for estimating fair value in accordance with FAS No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. We do not expect our adoption of FSP SFAS No. 157-4 beginning April 1, 2009 to have a material impact on our consolidated financial condition or results of operations.

In April 2009, the FASB issued FSP SFAS No. 115-2 and SFAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which amends existing other-than-temporary impairment ( OTTI ) guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of OTTI on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to OTTI of equity securities. This FSP requires increased and more timely disclosures sought by investors regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. FSP SFAS No. 115-2 and SFAS No. 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. FSP SFAS No. 115-2 and SFAS No. 124-2 shall be applied to existing and new investments held by an entity as of the beginning of the interim period in which it is adopted. For debt securities held at the beginning of the interim period of adoption for which an OTTI was previously recognized, if an entity does not intend to sell and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this FSP as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income or loss. As of March 31, 2009, we have not previously recognized OTTI on any debt securities. Therefore, our initial adoption of this FSP will not require such adjustments. We do not expect our adoption of FSP No. 115-2 and FAS No. 124-2 beginning April 1, 2009 to have a material impact on our consolidated financial condition or results of operations.

**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****March 31, 2009**

In April 2009, the FASB issued FSP SFAS No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which amends SFAS No. 107, *Disclosure about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. In addition, this FSP requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments as well as any changes in the methods and significant assumptions used during the period. This FSP and APB are effective for interim reporting periods ending after June 15, 2009. We do not expect our adoption of FSP SFAS No. 107-1 and APB 28-1 beginning April 1, 2009 to have a material impact on our consolidated financial condition or results of operations.

**NOTE (3) Earnings Per Common Share**

Basic earnings per common share is computed by dividing earnings available to common shareholders by the weighted average number of shares of Common Stock outstanding for the period. Diluted earnings per common share is computed by dividing earnings available to common shareholders by the weighted average number of shares of Common Stock outstanding for the period, increased for the dilutive effect of Common Stock equivalents.

The following table shows how we computed basic and diluted earnings per common share for the three months ended March 31, 2009 and 2008.

	<b>For the three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Dollars in thousands, except per share)</b>	
<b>Basic</b>		
Net earnings	\$ 662	\$ 607
Less: Preferred stock dividends and accretion	(163)	(20)
Earnings available to common shareholders	\$ 499	\$ 587
Weighted average common shares outstanding	1,742,765	1,760,054
Basic earnings per common share	\$ 0.29	\$ 0.33
<b>Diluted</b>		
Net earnings	\$ 662	\$ 607
Less: Preferred stock dividends and accretion	(163)	(20)
Earnings available to common shareholders	\$ 499	\$ 587
Weighted average common shares outstanding	1,742,765	1,760,054
Add: dilutive effects of assumed exercises of stock options	1,982	50,912
Average shares and dilutive potential common shares	1,744,747	1,810,966
Diluted earnings per common share	\$ 0.29	\$ 0.32

## Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10-Q

Stock options and warrant for 402,000 and 46,000 shares of common stock were not considered in computing diluted earnings per common share for the first quarter of 2009 and 2008 because they were anti-dilutive.

### **NOTE (4) Fair Value**

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****March 31, 2009**

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair values of loans receivable held for sale, net are based upon binding quotes from 3rd party investors, if available, and if not available, the fair values are based on discounted cash flows using current market rates applied to the estimated life and credit risk without considering widening credit spreads due to market illiquidity.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

***Assets Measured on a Recurring Basis***

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at March 31, 2009 Using Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
				(In thousands)	
Assets:					
Securities available for sale	\$		\$	4,186	\$

	Fair Value Measurements at December 31, 2008 Using Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
				(In thousands)	
Assets:					

Securities available for sale	\$	\$	4,222	\$
-------------------------------	----	----	-------	----

**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements (continued)****March 31, 2009****Assets Measured on a Non-Recurring Basis**

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at March 31, 2009		
	Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:	(In thousands)		
Loans receivable held for sale	\$	\$ 23,307	\$
Impaired loans with specific loss allocations			3,666

	Fair Value Measurements at December 31, 2008		
	Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:	(In thousands)		
Loans receivable held for sale	\$	\$ 24,576	\$
Impaired loans with specific loss allocations			807

The following represent impairment charges recognized during the first quarter of 2009 for assets measured at fair value on a non-recurring basis. There were no impairment charges recognized during the first quarter of 2008.

Loans held for sale, which are carried at lower of cost or fair value, were written down to fair value of \$23.3 million, resulting in a valuation allowance of \$365 thousand at March 31, 2009. Loans held for sale, which are carried at lower of cost or fair value, were written down to fair value of \$24.6 million, resulting in a valuation allowance of \$260 thousand at December 31, 2008. A charge of \$105 thousand was included in earnings for the quarter ended March 31, 2009.

Impaired loans with specific loss allocations, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$4.5 million, with a valuation allowance of \$795 thousand at March 31, 2009 and a carrying amount of \$1.2 million, with a valuation allowance of \$384 thousand at December 31, 2008, resulting in an additional provision for loan losses of \$411 thousand for the quarter ended March 31, 2009.

**NOTE (5) Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are any such matters that will have a material effect on the consolidated financial statements. The Bank is the defendant in Daniel D. Holliday III v. Broadway Federal Bank (Case No. BC 398403), a lawsuit filed in the Superior Court of the State of California for Los Angeles County on September 18, 2008 and amended on March 4, 2009. This legal action arises from a dispute over the priority of the Bank's lien against a deposit account balance in the Bank securing a land development loan. The lawsuit seeks damages of \$2.6 million, plus interest, costs and attorneys fees according to proof, as well as a constructive trust on the escrow funds. The plaintiff also seeks injunctive relief to prevent the Bank from asserting a senior security interest on the deposit account and to prevent the Bank from applying the funds in the deposit account to satisfy the amount owing on the loan. The lawsuit is still in the discovery phase and our attorney has not expressed an opinion as to the likely outcome. Management plans to vigorously defend against the lawsuit. No loss has been accrued for this lawsuit, no specific allowance for loan loss allocation has been established for the related loan and the loan is not on nonaccrual status as of March 31, 2009 as management believes the loan and the accrued interest receivable as of March 31, 2009 are fully collectible assuming the deposit account balance securing the loan can be offset against the loan and the accrued interest receivable balances. If the Bank is unsuccessful in defending against the lawsuit, the loan and the accrued interest receivable balances may not be fully collectible and a loss may be incurred that could be material to the Company's consolidated financial statements.



---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

*Certain matters discussed in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among other things, expectations regarding the business environment in which the Company operates, projections of future performance, perceived opportunities in the market, and statements regarding strategic objectives. These forward-looking statements are based upon current management expectations, and involve risks and uncertainties. Actual results or performance may differ materially from those suggested, expressed, or implied by forward-looking statements due to a wide range of factors including, but not limited to, the general business environment, the real estate market, competitive conditions in the business and geographic areas in which the Company conducts its business, regulatory actions or changes and other risks detailed in the Company's reports filed with the Securities and Exchange Commission, including the Company's Annual Reports on Form 10-K or Form 10-KSB and Quarterly Reports on Form 10-Q or Form 10-QSB.*

**General**

Broadway Financial Corporation (the Company) is primarily engaged in the savings and loan business through its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (Broadway Federal or the Bank). Broadway Federal is a community-oriented savings institution dedicated to serving the African-American, Hispanic and other communities of Mid-City and South Los Angeles, California. Broadway Federal's business is that of a financial intermediary and consists primarily of attracting deposits from the general public and using such deposits, together with borrowings and other funds, to make mortgage loans secured by residential and non-residential real estate located primarily in Southern California. At March 31, 2009, Broadway Federal operated five retail-banking offices in Mid-City and South Los Angeles and two loan production offices in Irvine and Torrance. Broadway Federal is subject to significant competition from other financial institutions, and is also subject to regulation by federal agencies and undergoes periodic examinations by those regulatory agencies.

The Company's principal business is serving as a holding company for Broadway Federal. The Company's results of operations are dependent primarily on Broadway Federal's net interest income, which is the difference between the interest income earned on its interest-earning assets, such as loans and investments, and the interest expense paid on its interest-bearing liabilities, such as deposits and borrowings. Broadway Federal also generates recurring non-interest income, such as transactional fees on its loan and deposit portfolios. The Company's operating results are affected by the amount of provisions for loan losses and the Bank's non-interest expenses, which consist principally of employee compensation and benefits, occupancy expenses, and technology and communication costs. More generally, the results of operations of thrift and banking institutions are also affected by prevailing economic conditions, competition, and the monetary and fiscal policies of governmental agencies.

**FDIC Insurance Coverage / Assessments**

As an FDIC-insured institution, the Bank is required to pay deposit insurance premiums to the FDIC. Because the FDIC's deposit insurance fund fell below prescribed levels in 2008, the FDIC has announced increased premiums for all insured depository institutions, including the Bank, in order to begin recapitalizing the fund. Insurance assessments range from 0.12% to 0.50% of total deposits for the first calendar quarter 2009 assessment. Effective April 1, 2009, insurance assessments will range from 0.07% to 0.78%, depending on an institution's risk classification and other factors.

In addition, under a proposed rule, the FDIC indicated its plans to impose a 20 basis point emergency assessment on insured depository institutions to be paid on September 30, 2009, based on deposits at June 30, 2009. FDIC

## **Table of Contents**

representatives subsequently indicated the amount of this special assessment could decrease if certain events transpire. The proposed rule would also authorize the FDIC to impose an additional emergency assessment of up to 10 basis points after June 30, 2009, if necessary to maintain public confidence in federal deposit insurance.

These changes would result in increased deposit insurance expense for the Bank in 2009. These increases will be reflected in other expenses in the Company's Consolidated Statement of Operations and Comprehensive Earnings in the period of enactment.

## **Results of Operations**

### *Net Earnings*

Net earnings for the first quarter of 2009 were \$662 thousand, or \$0.29 per diluted share, up \$55 thousand, or 9.06%, when compared with net earnings of \$607 thousand, or \$0.32 per diluted share, in the first quarter of 2008. The increase in net earnings was primarily due to higher net interest income before provision for loan losses which was partially offset by increases in the provision for loan losses and non-interest expense.

### *Net Interest Income*

Net interest income before provision for loan losses of \$4.1 million for the first quarter of 2009 was up \$779 thousand, or 23.33%, from the first quarter a year ago. The increase was attributable to continued growth in our average interest-earning assets and improvement in our annualized net interest rate margin. Interest-earning assets averaged \$404.9 million for the first quarter of 2009, up \$48.4 million, or 13.57%, from the same period a year ago. Our annualized net interest rate margin improved 32 basis points to 4.07% for the first quarter of 2009 from 3.75% for the same period a year ago. Our annualized net interest rate spread improved 29 basis points to 3.90% for the first quarter of 2009 from 3.61% for the same period a year ago. The 29 basis point improvement in our annualized net interest rate spread was due to the cost of our average interest-bearing liabilities declining more rapidly than the annualized yield on our average interest-earning assets.

The annualized yield on our average interest-earning assets decreased 41 basis points to 6.51% for the first quarter of 2009 from 6.92% for the same period a year ago. The decrease was primarily the result of a lower annualized yield on our average loans which decreased 39 basis points to 6.83% for the first quarter of 2009 from 7.22% for the same period in 2008. The decrease in the annualized yield on our average loans was primarily due to lower market interest rates which resulted in lower rates on new loans and a reduction in interest income from variable rate loans. Also contributing to lower annualized yield on our average loans was the increase in non-accrual loans which resulted in higher net interest income reversal.

The annualized cost of our average interest-bearing liabilities decreased 70 basis points to 2.62% for the first quarter of 2009 from 3.32% for the same period a year ago. The annualized weighted average cost of deposits decreased 56 basis points to 2.32% for the first quarter of 2009 from 2.88% for the same period in 2008, primarily due to the repricing of maturing CDs that had interest rates above current market rates. The annualized weighted average cost of FHLB borrowings decreased 45 basis points to 3.62% for the first quarter of 2009 from 4.07% for the same period in 2008 primarily due to maturities of higher costing FHLB borrowings.

### *Provision for Loan Losses*

During the first quarter of 2009, the provision for loan losses amounted to \$516 thousand, compared to \$158 thousand for the same period a year ago. The increase in the provision for loan losses was due to our continued loan growth, as well as the increase in our classified and non-performing loans.

### *Non-interest Income*

Non-interest income of \$296 thousand for the first quarter of 2009 remained unchanged from the first quarter a year ago, as the increase in service charges for loan related fees and retail banking fees was offset by the increase in provision for losses on loans held for sale. The growth in loan related fees primarily resulted from increased payment of late charges and higher servicing fee income as our investor loan portfolio grew. Retail banking fees grew with the increase in customer deposits.

**Table of Contents***Non-interest Expense*

Non-interest expense totaled \$2.8 million for the first quarter of 2009, up \$328 thousand, or 13.13%, from the first quarter a year ago. A large portion of the increase was in compensation and benefits, which increased by \$179 thousand, or 12.37%, in the first quarter of 2009 compared to the same quarter in 2008. Approximately \$137 thousand of the increase in compensation and benefits related to annual pay increases and addition of experienced management, including a Chief Operating Officer and a Vice President for Loan Originations who were both hired during the first quarter of 2009. Other significant increases in non-interest expense between first quarters include a \$70 thousand increase in professional services expense, of which \$62 thousand was due to higher legal expenses, and a \$39 thousand increase in other expense, primarily due to an \$85 thousand increase in FDIC insurance premium assessments which was partially offset by decreases in donations, sponsorships and promotions. Further increases in FDIC insurance premium assessments are expected as the FDIC replenishes the insurance fund for the increasing number of bank failures which has depleted the insurance fund.

**Income Taxes**

The Company's effective income tax rate was 38.25% for the first quarter 2009 compared to 38.00% for first quarter 2008. Income taxes are computed by applying the statutory federal income tax rate of 34% and the California income tax rate of 10.84% to earnings before income taxes.

**Financial Condition***Assets, Loan Originations, Deposits and Borrowings*

At March 31, 2009, assets totaled \$438.7 million, up \$30.8 million, or 7.54%, from year-end 2008. During the first quarter of 2009, net loans, including loans held for sale, increased \$27.5 million, or 7.68%, and cash and cash equivalents increased \$4.2 million, while securities available for sale and held to maturity decreased \$1.3 million.

Loan originations for the three months ended March 31, 2009 totaled \$39.4 million, up \$1.6 million, or 4.23%, from \$37.8 million for the same period a year ago. Loan repayments, including loan sales, amounted to \$11.8 million for the three months ended March 31, 2009, down \$2.0 million, or 14.49%, from \$13.8 million for the same period a year ago.

Deposits totaled \$323.8 million at March 31, 2009, up \$33.9 million, or 11.70%, from year-end 2008. During the first quarter of 2009, our core deposits (NOW, demand, money market and passbook accounts) increased \$29.8 million and our certificates of deposit increased \$2.9 million. Additionally, brokered deposits grew \$1.2 million during 2009. A significant portion of the increase in our core deposits was from our online NOW account. At March 31, 2009, core deposits represented 44.45% of total deposits compared to 39.38% at December 31, 2008, and brokered deposits represented 25.22% of total deposits compared to 27.75% at December 31, 2008.

Since the end of 2008, FHLB borrowings decreased \$2.5 million, or 3.38%, to \$71.5 million at March 31, 2009 from \$74.0 million at December 31, 2008, as we repaid borrowings and were able to fund our loan growth with the increase in customer deposits during the first quarter of 2009.

*Allowance for Loan Losses*

At March 31, 2009, the allowance for loan losses was \$4.1 million, or 1.11% of total gross loans receivable, excluding loans held for sale, compared to \$3.6 million, or 1.06% of total gross loans receivable, excluding loans held for sale, at year-end 2008.

Management believes that the allowance for loan losses is adequate to cover probable incurred losses in the loan portfolio as of March 31, 2009, but there can be no assurance that actual losses will not exceed the estimated amounts. The Bank is experiencing increased delinquencies which may necessitate the provision of additional loan loss allocations. In addition, the Office of Thrift Supervision ( OTS ) and the Federal Deposit Insurance Corporation periodically review the allowance for loan losses as an integral part of their examination process. These agencies may

**Table of Contents**

require an increase to the allowance for loan losses based on their judgments of the information available to them at the time of their examinations.

*Non-Performing Assets*

Non-performing assets, consisting of non-accrual and delinquent loans 90 or more days past due, at March 31, 2009 were \$5.8 million, or 1.32% of total assets, compared to \$3.5 million, or 0.85% of total assets, at December 31, 2008. Non-accrual loans at March 31, 2009 consisted of \$2.3 million of commercial real estate loans, \$2.2 million of single-family residential real estate loans, \$1.2 million of multi-family residential real estate loans and \$0.1 million of unsecured consumer loans. This compares to \$3.1 million of commercial real estate loans, \$0.2 million of multi-family residential real estate loans and \$0.2 million of commercial and unsecured consumer loans at December 31, 2008.

The Bank performed an impairment analysis for all non-accrual loans, and recorded specific loss allocations for impaired loans in accordance with Statement of Financial Accounting Standards (SFAS) No.114, *Accounting by Creditors for Impairment of a Loan*. The Bank increased specific loss allocations for impaired loans by \$0.4 million during the quarter. The increase in the specific loss allocations is mainly related to two single-family residential loans totaling \$2.0 million and one church loan totaling \$1.3 million. The loans are non-performing and the recent appraisal of the underlying collaterals reflected a decrease in values, and the Bank accordingly allocated \$0.4 million of specific loss allocations. Six loans held for sale totaling \$6.7 million, with a specific valuation allowance of \$365 thousand, were considered impaired as of March 31, 2009. This compares to two loans held for sale totaling \$1.2 million, with a specific valuation allowance of \$260 thousand, were considered impaired as of December 31, 2008. The Bank had no loans in foreclosure or REO (real estate owned) properties at March 31, 2009 and December 31, 2008.

*Performance Ratios*

The annualized return on average equity for first quarter 2009 was 8.01%, compared to 5.24% for fourth quarter 2008 and 10.89% for first quarter 2008. The decrease in our annualized return on average equity between first quarters was primarily due to the \$9.0 million senior preferred stock TARP funds invested in the Company by the United States Department of Treasury in November 2008. The annualized return on average assets for first quarter 2009 was 0.63%, compared to 0.36% for fourth quarter 2008 and 0.66% for first quarter 2008. The efficiency ratio for first quarter 2009 was 64.02%, compared to 74.19% for fourth quarter 2008 and 68.72% for first quarter 2008. The improvement in our annualized return on average assets and efficiency ratio was primarily due to higher net earnings in the first quarter of 2009 as a result of higher net interest income, which exceeded increases in the provision for loan losses and non-interest expense.

**Liquidity, Capital Resources and Market Risk**

Sources of liquidity and capital for the Company on a stand-alone basis include distributions from the Bank and the issuance of equity and debt securities, such as the senior preferred stock issued in the fourth quarter of 2008 to the United States Department of Treasury, preferred stock issued in 2002 and in 2006, the junior subordinated debentures issued during the first quarter of 2004, and the sale to Cathay General Bancorp of 70,000 shares of common stock during the second quarter of 2004 and 145,000 shares of common stock during the second quarter of 2006. Dividends and other capital distributions from the Bank are subject to regulatory restrictions.

The Bank's primary sources of funds include deposits, advances from the FHLB and other borrowings, proceeds from the sale of loans, mortgage-backed and investment securities, and principal and interest payments from loans and mortgage-backed and other investment securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan and security prepayments are greatly influenced by the general level of interest rates, economic conditions and competition.

Since December 31, 2008, there has been no material change in the Company's interest rate sensitivity. For a discussion on the Company's interest rate sensitivity and market risk, see the Company's annual report on Form 10-K for the year ended December 31, 2008, including the Company's audited consolidated financial statements and the notes thereto.

**Table of Contents****Regulatory Capital**

The OTS capital regulations include three separate minimum capital requirements for savings institutions that are subject to OTS supervision. First, the tangible capital requirement mandates that the Bank's stockholder's equity, less intangible assets, be at least 1.50% of adjusted total assets as defined in the capital regulations. Second, the core capital requirement currently mandates that core capital (tangible capital plus certain qualifying intangible assets) be at least 4.00% of adjusted total assets as defined in the capital regulations. Third, the risk-based capital requirement presently mandates that core capital plus supplemental capital (as defined by the OTS) be at least 8.00% of risk-weighted assets as prescribed in the capital regulations. The capital regulations assign specific risk weightings to all assets and off-balance-sheet items for this purpose.

Broadway Federal was in compliance with all capital requirements in effect at March 31, 2009, and met all standards necessary to be considered well-capitalized under the prompt corrective action regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). However, the Bank's Total Risk-Based Capital ratio fell short of management's goal to keep the ratio above 11.00%, as communicated to the Bank's primary regulator.

The following table reflects the required and actual regulatory capital ratios of Broadway Federal at the date indicated:

Regulatory Capital Ratios	OTS	FDICIA	Actual at
	Minimum	Well-capitalized	
For Broadway Federal	Requirement	Requirement	March 31, 2009
Tangible ratio	1.50%	N/A	7.85%
Core Capital ratio	4.00%	5.00%	7.85%
Tier 1 Risk-based ratio	4.00%	6.00%	10.01%
Total Risk-based ratio	8.00%	10.00%	10.91%

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

As of March 31, 2009, an evaluation was performed under the supervision of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of March 31, 2009. There were no significant changes in the Company's internal controls over financial reporting during the Company's last fiscal quarter that could significantly affect those controls subsequent to March 31, 2009.

**Table of Contents**

**PART II. OTHER INFORMATION**

Item 1. LEGAL PROCEEDINGS

The Holliday lawsuit, described in the Company's Form 10-K for the period ended December 31, 2008 is still in the discovery phase and our attorney has not expressed an opinion as to the likely outcome.

Item 1A. RISK FACTORS

As of March 31, 2009, there were no material changes from risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

Exhibit 31.1 - Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32 -

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10-Q

Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**Table of Contents**

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 14, 2009

By: /s/ Paul C. Hudson  
Paul C. Hudson  
Chief Executive Officer

Date: May 14, 2009

By: /s/ Samuel Sarpong  
Samuel Sarpong  
Chief Financial Officer