BROADWAY FINANCIAL CORP \DE\
Form 10-K
April 14, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark one)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-27464

BROADWAY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-4547287**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4800 Wilshire Boulevard, Los Angeles, California	**90010**
(Address of principal executive offices)	**(Zip Code)**

(323) 634-1700

(Registrant s Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share (including attached preferred stock purchase rights)	**The NASDAQ Stock Market, LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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 x 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter: $2,684,000

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: As of March 31, 2011, 1,743,965 shares of the Registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Table of Contents

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

Certain statements herein, including without limitation, matters discussed under Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Form 10-K, are forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, that reflect our current views with respect to future events and financial performance. Forward-looking statements typically include the words anticipate, believe, estimate, expect, project, plan, foreca intend, and other similar expressions. These forward-looking statements are subject to risks and uncertainties, including those identified below, which could cause actual future results to differ materially from historical results or from those anticipated or implied by such statements. Readers should not place undue reliance on these forward-looking statements, which speak only as of their dates or, if no date is provided, then as of the date of this Form 10-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following factors, among others, could cause future results to differ materially from historical results or from those anticipated by forward-looking statements included in this Form 10-K: (1) the level of demand for mortgage loans, which is affected by such external factors as general economic conditions, interest rate levels, tax laws, and the demographics of our lending markets; (2) the direction and magnitude of changes in interest rates and the relationship between market interest rates and the yield on our interest-earning assets and the cost of our interest-bearing liabilities; (3) the rate of loan losses incurred and projected to be incurred by us, the level of our loss reserves and management s judgments regarding the collectability of loans; (4) changes in the regulation of lending and deposit operations or other regulatory actions, whether industry wide or focused on our operations, including increases in capital requirements or directives to increase loan loss allowances; (5) actions undertaken by both current and potential new competitors; (6) the possibility of continuing adverse trends in property values or economic trends in the residential and commercial real estate markets in which we compete; (7) the effect of changes in economic conditions; (8) the effect of geopolitical uncertainties; and (9) other risks and uncertainties detailed in this Form 10-K, including those described in Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

PART I

ITEM 1. BUSINESS

General

Broadway Financial Corporation (the Company) was incorporated under Delaware law in 1995 for the purpose of acquiring and holding all of the outstanding capital stock of Broadway Federal Savings and Loan Association (Broadway Federal or the Bank) as part of the Bank s conversion from a federally chartered mutual savings association to a federally chartered stock savings bank. In connection with the conversion, the Bank s name was changed to Broadway Federal Bank, f.s.b. The conversion was completed, and the Bank became a wholly owned subsidiary of the Company, in January 1996.

We are headquartered in Los Angeles, California and our principal business is the operation of our wholly-owned subsidiary, Broadway Federal. Broadway Federal s principal business consists of attracting retail deposits from the general public in the areas surrounding our branch offices and investing those deposits, together with funds generated from operations and borrowings, primarily in multi-family mortgage loans, commercial real estate loans and one to four-family mortgage loans. In addition, we invest in securities issued by the federal government and federal agencies, residential mortgage-backed securities and other investments.

Our primary sources of revenue are interest income we earn on our loans and securities. Our principal expenses are interest expense we incur on our interest-bearing liabilities, including deposits and borrowings, together with general and administrative expenses. Our earnings are significantly affected by general economic and competitive conditions, particularly changes in market interest rates and U.S. Treasury yield curves, government policies and actions of regulatory authorities.

The Bank is currently regulated by the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC). The Bank s deposits are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC. The Bank is also a member of the Federal Home Loan Bank (FHLB) of San Francisco. See Regulation for further descriptions of the existing regulatory system and of pending changes to that system.

Lending Activities

General

Our loan portfolio is comprised primarily of mortgage loans which are secured by multi-family properties, commercial real estate, including churches, and one to four-family properties. The remainder of the loan portfolio consists of commercial business loans, construction loans and consumer and other loans. At December 31, 2010, our net loan portfolio totaled $382.6 million, or 79% of total assets.

We emphasize the origination of adjustable-rate loans (ARMs) and hybrid ARM loans (ARM loans having an initial fixed rate period) primarily for retention in our portfolio. We retain these loans in order to increase the percentage of our loans that have more frequent repricing, thereby reducing our exposure to interest rate risk. At December 31, 2010, approximately 96% of our mortgage loans had adjustable rates. To a lesser extent, we also originate fixed rate mortgage loans to meet customer demand but we sell the majority of these loans in the secondary market, primarily to other financial institutions. The decision as to whether the loans will be retained in our portfolio or sold is generally made at the time of loan origination or purchase. At December 31, 2010, we had 38 loans totaling $29.4 million held for sale.

The types of loans that we originate are subject to federal laws and regulations. The interest rates that we charge on loans are affected by the demand for such loans, the supply of money available for lending purposes and the rates offered by competitors. These factors are in turn affected by, among other things, economic

Table of Contents

conditions, monetary policies of the federal government, including the Federal Reserve Board, and legislative tax policies. Federal savings associations and savings banks are not subject to usury or other interest rate limitations.

The following table sets forth the composition of our loan portfolio in dollar amounts and as a percentage of the total loan portfolio (including loans held for investment and loans held for sale) by loan type at the dates indicated.

	2010		2009		December 31, 2008		2007		2006	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
					(Dollars in thousands)					
One to four-units	$ 82,764	20.56%	$ 90,747	20.03%	$ 68,478	20.25%	$ 35,313	11.59%	$ 25,233	10.08%
Five or more units	128,534	31.92%	146,291	32.28%	87,679	25.93%	113,395	37.21%	131,305	52.42%
Commercial real estate	72,770	18.08%	82,276	18.16%	66,861	19.77%	59,797	19.62%	60,401	24.11%
Church	97,634	24.25%	101,007	22.29%	84,041	24.85%	70,793	23.23%	17,671	7.06%
Construction	5,421	1.35%	5,547	1.22%	5,505	1.63%	2,033	0.67%	2,090	0.83%
Commercial	12,178	3.02%	23,166	5.11%	22,357	6.61%	22,630	7.43%	12,247	4.89%
Consumer	3,288	0.82%	4,110	0.91%	3,246	0.96%	784	0.25%	1,530	0.61%
Gross loans	402,589	100.00%	453,144	100.00%	338,167	100.00%	304,745	100.00%	250,477	100.00%
Plus: Premiums on loans purchased	-		-		2		4		12	
Less:										
Loans in process	371		822		1,499		2,356		872	
Deferred loan fees (costs), net	(889)		(817)		(213)		258		162	
Unamortized discounts	33		39		51		60		68	
Allowance for loan losses	20,458		20,460		3,559		2,051		1,730	
Total loans held for investment	$ 382,616		$ 432,640		$ 333,273		$ 300,024		$ 247,657	
Loans held for sale	$ 29,411		$ 20,940		$ 24,576		$ 3,554		$ -	

Multi-Family and Commercial Real Estate Lending

Our primary lending emphasis has been on the origination of multi-family and commercial real estate loans, including loans secured by church properties. These loans are secured primarily by multi-family dwellings or by properties used for business or religious purposes, such as small office buildings, health care facilities and retail facilities located in our primary market area and church buildings located in various communities throughout the United States. We suspended our lending to churches in 2010 as further described below.

Our multi-family loans amounted to $128.5 million and $146.3 million at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, multi-family loans represented 32% of our gross loan portfolio. All of the multi-family residential mortgage loans outstanding at December 31, 2010 were ARMs. The vast majority of our multi-family loans amortize over and mature in 30 years. As of December 31, 2010, our single largest multi-family credit had an outstanding balance of $3.2 million, was current and was secured by a 38-unit apartment complex in Montebello, California. At December 31, 2010, the average balance of loans in our multi-family portfolio was approximately $370 thousand. Our ten largest multi-family loans at December 31, 2010, aggregated $18.0 million.

Our commercial real estate loans amounted to $170.4 million and $183.3 million at December 31, 2010 and 2009, respectively. At December 31, 2010, commercial real estate lending represented 42% of our gross loan portfolio, compared to 40% at December 31, 2009. Of the commercial real estate loans outstanding at

2

December 31, 2010, 4% were fixed rate loans and 96% were ARMs. Most commercial real estate loans are originated with principal repayments on a 30 year amortization schedule but are due in 15 years. As of December 31, 2010, our single largest commercial real estate credit had an outstanding principal balance of $3.8 million, was current and was secured by a church building located in Los Angeles, California. At December 31, 2010, the average balance of loans in our commercial real estate portfolio was approximately $598 thousand. Our ten largest commercial real estate loans at December 31, 2010, aggregated $29.5 million.

The interest rates on multi-family and commercial ARM loans are based on a variety of indices, including the 6-Month London InterBank Offered Rate Index (6-Month LIBOR), the 1-Year Constant Maturity Treasury Index (1-Yr CMT), the 12-Month Treasury Average Index (12-MTA), the 11th District Cost of Funds Index (COFI), and the Wall Street Journal Prime Rate (Prime Rate). We currently offer loans with interest rates that adjust monthly, semi-annually, and annually. Borrowers are required to make monthly payments under the terms of such loans.

Loan secured by multi-family and commercial real properties are granted based on the income producing potential of the property and the financial strength of the borrower. The primary factors considered include, among other things, the net operating income of the mortgaged premises before debt service and depreciation, the debt service coverage ratio (the ratio of net operating income to required principal and interest payments, or debt service), and the ratio of the loan amount to the lower of the selling price or the appraised value.

We seek to mitigate the risks associated with multi-family and commercial real estate loans described below by applying appropriate underwriting requirements, which include limitations on loan-to-value ratios and debt service coverage ratios. Under our underwriting policies, loan-to-value ratios on our multi-family and commercial real estate loans usually do not exceed 75% of the lower of the selling price or the appraised value of the underlying property. We also generally require minimum debt service ratios of 115% for multi-family loans and 125% for commercial real estate loans. Properties securing multi-family and commercial real estate loans are appraised by a management-approved independent appraiser and title insurance is required on all loans.

Multi-family and commercial real estate loans are generally viewed as exposing the lender to a greater risk of loss than single-family residential loans and typically involve higher loan principal amounts than loans secured by single-family residential real estate. Because payments on loans secured by multi-family and commercial real properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or general economy, such as we are experiencing with the current economic downturn. Continued adverse economic conditions in our primary lending market area could result in reduced cash flows on multi-family and commercial real estate loans, vacancies and reduced rental rates on such properties. We seek to reduce these risks by originating such loans on a selective basis and generally restrict such loans to our general market area. In 2008, we ceased out-of-state lending for all types of lending.

Originating loans secured by church properties is a market niche in which we have been active since our inception. We believe that the importance of church organizations in the social and economic structure of the communities we serve makes church lending an important aspect of our community orientation. We further believe that the importance of churches in the lives of the individual members of the respective congregations encourages donations even in difficult economic times, thereby providing somewhat greater assurance of financial resources to repay such church loans compared to other types of commercial properties. Nonetheless, adverse economic conditions can result in risks to loan repayment that are similar to those encountered in other types of commercial lending, and such church lending is subject to other risks not necessarily directly related to economic factors such as the stability, quality and popularity of church leadership. Because of these factors, we do not believe the current real estate market and economic environment support pursuing the origination of additional church loans. Additionally, the cease and desist order issued to Broadway Federal by the OTS, described below under the caption Regulation , restricts us from originating church loans. As a result, we have suspended the origination of church loans. We intend to resume church lending when economic conditions improve and regulatory limitations are removed. Church loans included in our commercial real estate portfolio totaled $97.6 million and $101.0 million at December 31, 2010 and 2009, respectively.

The underwriting standards for loans secured by church properties are different than for other commercial real estate properties in that the ratios used in evaluating the loans are based upon the level and history of church member contributions as a repayment source rather than income generated by rents or leases.

One to Four-Family Mortgage Lending

While we are primarily a multi-family and commercial real estate lender, we also originate ARMs and fixed rate loans secured by one to four-family (single-family) residences, with maturities of up to 30 years. Substantially all of our single-family loans are secured by properties located in Southern California, with most being in our primary market areas of Mid-City and South Los Angeles. Loan originations are generally obtained from our loan representatives or third party brokers, existing or past customers, and referrals from members of churches or other organizations in the local communities where we operate. Single-family loans totaled $82.8 million and $90.7 million at December 31, 2010 and 2009, respectively. Single-family loans represented 21% of our gross loan portfolio at December 31, 2010, compared to 20% at December 31, 2009. Of the single-family residential mortgage loans outstanding at December 31, 2010, 3% were fixed rate loans and 97% were ARMs.

The interest rates for our single-family ARMs are indexed to COFI, 6-Month LIBOR, 12-MTA and 1-Yr. CMT. We currently offer loans with interest rates that adjust monthly, semi-annually, and annually. Borrowers are required to make monthly payments under the terms of such loans.

We qualify our ARM borrowers based upon the fully indexed interest rate (LIBOR or other index plus an applicable margin, rounded to the nearest one-eighth of 1%) provided by the terms of the loan. However, the initial rate paid by the borrower may be discounted to a rate we determine to adjust for market and other competitive factors. The ARMs that we offer have a lifetime adjustment limit that is set at the time the loan is approved. In addition, because of interest rate caps and floors, market rates may exceed or go below the respective maximum or minimum rates payable on our ARMs.

Our policy is to originate one to four-family residential mortgage loans in amounts of up to 90% of the lower of the appraised value or the selling price of the property securing the loan. Any loan in excess of 80% of the appraised value or selling price of the property securing the loan generally requires private mortgage insurance or the Bank charges a higher interest rate to cover the additional risk associated with making a loan with a loan to value ratio higher than 80%. Under certain circumstances, we may originate loans of up to 97% of the selling price if private mortgage insurance is obtained. We may originate loans based on other parameters for loans that are originated for committed sales to other investors. Properties securing a single-family loan are appraised by an approved independent appraiser and title insurance is required on all such loans.

Mortgage loans that we originate generally include due-on-sale clauses, which provide us with the contractual right to declare the loan immediately due and payable in the event the borrower transfers ownership of the property. Due-on-sale clauses are an important means of adjusting the rates on our fixed rate mortgage loan portfolio.

Commercial Lending

We originate and purchase non-real estate commercial loans that are secured by business assets, the franchise value of the business, if applicable, and individual assets such as deposit accounts, securities and automobiles. Most of these loans are originated with maturities of up to 5 years. Commercial loans amounted to $12.2 million and $23.2 million at December 31, 2010 and 2009, respectively. At December 31, 2010, commercial loans represented 3% of our gross loan portfolio, compared to 5% at December 31, 2009. Of the commercial loans outstanding at December 31, 2010, 8% were fixed rate loans and 92% were ARMs. As of December 31, 2010, our single largest commercial credit had a total outstanding principal balance of $3.7 million.

In 2007, management and the Board of Directors decided to terminate the Bank s prior strategy of lending to sports franchises and reduced its participation in nationally syndicated corporate loan facilities in order to focus on financing opportunities within our market area. The Board of Directors approved a sports finance policy that restricts lending to national professional sports franchises. Sports loans are generally perceived to be risky due to the large amount of intangible value of a professional sports franchise. To offset risk, Broadway Federal s policy imposes the following underwriting requirements: (1) maximum loan to franchise value maintenance covenants; (2) operating support agreements that require funding of any potential losses by a credit worthy third party (usually a high net worth member of the sports franchise ownership group); and (3) 12 months of interest reserve. The interest rate on sports loans is variable and is based on the three-month LIBOR or the Prime Rate.

We also participate to a limited degree as a direct lender in selected large nationally syndicated credits. The Bank is one of several lenders that lend relatively small amounts that in aggregate create one large loan to a major borrower. These corporate credits are typically rated by a credit rating service and are secured by the assets of the borrowers, primarily real estate and accounts receivable. These nationally syndicated credits are typically floating interest rate loans based on three-month LIBOR.

Construction Lending

At December 31, 2010 and 2009, we had $5.4 million and $5.5 million in construction loans, representing 1% of our gross loan portfolio. We provide loans for construction of single-family, multi-family and commercial real estate projects and for land development. We generally make construction and land loans at variable interest rates based upon the Prime Rate. Generally, we require a loan-to-value ratio not exceeding 75% to 80% on a purchase and a loan-to-cost ratio of 80% to 90% on a refinance of construction loans.

Construction loans involve risks that are different from those for completed project lending because we advance loan funds based upon the security of the completed project under construction. If the borrower defaults on the loan, we may have to advance additional funds to finance the project s completion before the project can be sold. Moreover, construction projects are affected by uncertainties inherent in estimating construction costs, potential delays in construction schedules, market demand and the accuracy of estimates of the value of the completed project considered in the loan approval process. In addition, construction projects can be risky as they transition to completion and lease-up. Tenants who may have been interested in leasing a unit or apartment may not be able to afford the space when the building is completed, or may fail to lease the space for other reasons such as more attractive terms offered by competing lessors, making it difficult for the building to generate enough cash flow for the owner to obtain permanent financing. Many construction project owners are faced with these risks given the current economic downturn. Consequently, we are not originating construction loans at this time.

Consumer Lending

Our consumer loans primarily consist of loans secured by savings accounts. At December 31, 2010 and 2009, loans secured by savings accounts totaled $3.3 million and $4.0 million, respectively, representing 1% of our gross loan portfolio. Loans secured by depositors accounts are generally made up to 90% of the current value of the pledged account, at an interest rate between 2% and 4% above the rate paid on the deposit account, depending on the type of account, and for a term expiring upon the earlier of one year from origination or the maturity of the deposit account.

Table of Contents

Loan Originations, Purchases and Sales

We source loan originations from our loan personnel, local mortgage brokers, advertising and referrals from customers. For all loans that we originate, upon receipt of a loan application from a prospective borrower, a credit report is ordered and certain other information is verified by an independent credit agency and, if necessary, additional financial information is requested. An appraisal of the real estate intended to secure the proposed loan is required, which appraisal is performed by an independent licensed or certified appraiser designated and approved by us. The Board annually reviews our appraisal policy. Management reviews annually the qualifications and performance of independent appraisers that we use.

It is our policy to obtain title insurance on all real estate loans. Borrowers must also obtain hazard insurance naming Broadway Federal as a loss payee prior to loan closing. If the original loan amount exceeds 80% on a sale or refinance of a first trust deed loan, we may require private mortgage insurance and the borrower is required to make payments to a mortgage impound account from which we make disbursements to pay private mortgage insurance premiums, property taxes and hazard and flood insurance as required.

Our Board of Directors has authorized the following loan approval limits: if the total of the borrower s existing loans and the loan under consideration is $500,000 or less, the new loan may be approved by the Chief Operating Officer or the Chief Lending Officer; if the total of the borrower s existing loans and the loan under consideration is from $500,001 to $1,000,000, the new loan must be approved by two Loan Committee members; if the total of the borrower s existing loans and the loan under consideration is from $1,000,001 up to $1,750,000, the new loan must be approved by three Loan Committee members, two of whom must be non-management Loan Committee members; and if the total of existing loans and the loan under consideration is more than $1.75 million, the new loan must be approved by four Loan Committee members, two of whom must be non-management Loan Committee members or by the Executive Committee of the Board of Directors. In addition, it is our practice that all loans approved only by management be reported to the Loan Committee by the following month, and be ratified by the Board of Directors.

From time to time, we purchase loans originated by other institutions based upon our investment needs and market opportunities. The determination to purchase specific loans or pools of loans is subject to our underwriting policies, which consider, among other factors, the financial condition of the borrower, the location of the underlying collateral property and the appraised value of the collateral property. We did not purchase any loans during the year ended December 31, 2010, compared to $21.8 million of loans purchased during the year ended December 31, 2009.

We originate and purchase loans for investment and for sale. Loan sales are made from the loans held for sale portfolio and from loans originated during the period that are designated as held for sale. It is our current practice to sell most single-family conforming fixed rate mortgage loans that we originate, retaining a limited amount in our portfolio. Conforming loans are loans that qualify in terms of maximum loan size and other criteria for purchase by FNMA and FHLMC. We also may sell commercial real estate and multi-family ARMs that we originate based upon our investment and liquidity needs and market opportunities. At December 31, 2010, we had 38 loans totaling $29.4 million held for sale. We typically retain the servicing rights associated with loans that are sold. The servicing rights are recorded and carried as assets based upon their fair values. At December 31, 2010 and 2009, we had $487 thousand and $450 thousand, respectively, in mortgage servicing rights.

We receive monthly loan servicing fees on loans sold and serviced for others, primarily insured financial institutions, that are payable by the loan purchaser out of loan collections in an amount equal to an agreed percentage of the monthly loan installments collected, plus late charges and certain other fees paid by the borrowers. Loan servicing activities include monthly loan payment collection, monitoring of insurance and tax payment status, responses to borrower information requests and dealing with loan delinquencies and defaults, including conducting loan foreclosures. At December 31, 2010 and 2009, we were servicing $46.5 million and $43.1 million, respectively, of loans for others.

Table of Contents

The following table sets forth our loan originations, purchases, sales and principal repayments for the periods indicated, including loans held for sale.

	2010	2009 (In thousands)	2008
Gross loans:			
Beginning balance	$ 475,078	$ 363,003	$ 308,299
Loans originated:			
One to four-units	2,369	35,635	38,656
Five or more units	10,683	41,567	9,702
Commercial real estate	1,056	26,786	28,456
Church	395	19,847	37,038
Construction	-	381	553
Commercial	2,817	7,047	13,009
Consumer	133	1,619	3,118
Total loans originated	17,453	132,882	129,572
Loan purchased:			
Five or more units	-	21,813	-
Commercial real estate	-	-	984
Total loans purchased	-	21,813	984
Less:			
Principal repayments	37,463	34,928	50,112
Sales of loans	11,410	2,892	25,737
Loan charge-offs	5,372	2,728	3
Transfer of loans receivable to real estate owned	5,005	2,072	-
Ending balance (1)	$ 433,281	$ 475,078	$ 363,003

(1) Includes loans held-for-sale totaling $30.7 million, $21.9 million and $24.8 million at December 31, 2010, 2009 and 2008, respectively, exclusive of a $1.3 million, $994 thousand and $260 thousand valuation allowance at December 31, 2010, 2009 and 2008, respectively.

Loan Maturity and Repricing

The following table sets forth the contractual maturities of our gross loans receivable at December 31, 2010 and does not reflect the effect of prepayments or scheduled principal amortization.

	One to four-units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Gross loans receivable
				(In thousands)				
Amounts Due:								
One year or less	$ 491	$ 1,186	$ 4,567	$ 1,222	$ 2,450	$ 8,900	$ 3,275	$ 22,091
After one year:								
One year to five years	281	1,163	5,819	4,817	2,971	3,182	13	18,246
After five years	81,992	126,185	62,384	91,595	-	96	-	362,252

Total due after one year	82,273	127,348	68,203	96,412	2,971	3,278	13	380,498
Total	$ 82,764	$ 128,534	$ 72,770	$ 97,634	$ 5,421	$ 12,178	$ 3,288	$ 402,589

Table of Contents

The following table sets forth the dollar amount of gross loans receivable, excluding loans held for sale, at December 31, 2010 which are contractually due after December 31, 2011, and whether such loans have fixed interest rates or adjustable interest rates.

	December 31, 2010		
	Adjustable	Fixed	Total
		(Dollars in thousands)	
One to four-units	$ 79,967	$ 2,306	$ 82,273
Five or more units	127,348	-	127,348
Commercial real estate	64,704	3,498	68,202
Church	96,413	-	96,413
Construction	138	2,833	2,971
Commercial	2,252	1,026	3,278
Consumer	13	-	13
Total	$ 370,835	$ 9,663	$ 380,498
% of total	97.46%	2.54%	100.00%

Asset Quality

General

The underlying credit quality of our loan portfolio is dependent primarily on each borrower s ability to continue to make required loan payments and, in the event a borrower is unable to continue to do so, the value of the collateral securing the loan, if any. A borrower s ability to pay typically is dependent, in the case of one to four-family mortgage loans and consumer loans, primarily on employment and other sources of income, and in the case of multi-family and commercial real estate loans, on the cash flow generated by the property, which in turn is impacted by general economic conditions. Other factors, such as unanticipated expenditures or changes in the financial markets, may also impact a borrower s ability to make loan payments. Collateral values, particularly real estate values, are also impacted by a variety of factors including general economic conditions, demographics, property maintenance and collection or foreclosure delays.

Delinquencies

We perform a monthly review of all delinquent loans and reports are made monthly to the Internal Asset Review Committee of the Board of Directors. When a borrower fails to make a required payment on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. The procedures we follow with respect to delinquencies vary depending on the nature of the loan and the period of delinquency. In the case of residential mortgage loans, we generally send the borrower a written notice of nonpayment promptly after the loan becomes past due. In the event payment is not received promptly thereafter, additional letters are sent and telephone calls are made. If the loan is still not brought current and it becomes necessary for us to take legal action, we generally commence foreclosure proceedings against all real property that secures the loan. In the case of commercial real estate loans, we generally contact the borrower by telephone and send a written notice of non-payment upon expiration of the applicable grace period. Decisions as to when to commence foreclosure actions for commercial real estate loans are made on a case-by-case basis. We may consider loan workout arrangements with these types of borrowers in certain circumstances.

Table of Contents

The following table sets forth our loan delinquencies by type and amount at the dates indicated.

	December 31, 2010				December 31, 2009				December 31, 2008			
	60-89 Days		90 Days or more		60-89 Days		90 Days or more		60-89 Days		90 Days or more	
	Number of loans	Principal balance Of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans
						(Dollars in thousands)						
One to four-units	3	$ 71	15	$ 6,227	8	$ 4,194	10	$ 4,756	2	$ 196	-	$ -
Five or more units	4	1,068	4	2,250	5	2,622	4	1,644	1	450	1	200
Commercial real estate	1	1,287	14	10,321	4	2,527	6	6,061	-	-	2	541
Church	7	5,230	23	18,281	7	5,149	20	12,942	-	-	3	2,578
Construction	-	-	1	320	-	-	-	-	-	-	-	-
Commercial	-	-	2	3,768	-	-	4	7,269	1	591	2	110
Consumer	-	-	2	2,265	-	-	1	2,249	-	-	1	34
Total	15	$ 7,656	61	$ 43,432	24	$ 14,492	45	$ 34,921	4	$ 1,237	9	$ 3,463
Delinquent loans to total gross loans, including loans held for sale		1.77%		10.02%		3.05%		7.35%		0.34%		0.95%

Non-Performing Assets

Non-performing assets, consisting of nonaccrual loans (delinquent loans 90 days or more past due and troubled debt restructurings that do not qualify for accrual status) and real estate owned (REO), at December 31, 2010 were $46.5 million, or 9.60% of total assets, compared to $37.0 million or 7.10% of total assets, at December 31, 2009. Nonaccrual loans, the most significant component of non-performing assets, increased by $8.5 million to $43.4 million at December 31, 2010, from $34.9 million at December 31, 2009. This increase was due to the continued weakness in the housing and real estate markets and overall economy which resulted in continued elevated levels of delinquencies and non-performing loans during the year ended December 31, 2010.

The following table provides information regarding our non-performing assets at the dates indicated.

	December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Nonaccrual loans:					
One to four-units	$ 6,227	$ 4,756	$ -	$ -	$ -
Five or more units	2,250	1,644	200	-	-
Commercial real estate	10,321	6,061	541	-	-
Church	18,281	12,942	2,578	-	-
Construction	320	-	-	-	-
Commercial	3,768	7,269	110	-	-
Consumer	2,265	2,249	34	34	34
Total nonaccrual loans	43,432	34,921	3,463	34	34
Loans delinquent 90 days or more and still accruing	-	-	-	-	-
Real estate owned acquired through foreclosure	3,036	2,072	-	-	-
Total non-performing assets	$ 46,468	$ 36,993	$ 3,463	$ 34	$ 34

Nonaccrual loans as a percentage of gross loans, including loans held for sale	10.02%	7.35%	0.95%	0.01%	0.01%
Non-performing assets as a percentage of total assets	9.60%	7.10%	0.85%	0.01%	0.01%

We discontinue accruing interest on loans when the loans become 90 days delinquent as to their payment due date (missed three payments), unless the timing of collections are reasonably estimable and collection is probable. In addition, we reverse all previously accrued and uncollected interest through a charge to interest income. While loans are in nonaccrual status, interest due is monitored and income is recognized only to the extent cash is received until a return to accrual status is warranted. Interest income of $1.1 million for the year ended December 31, 2010 was recognized on nonaccrual loans, whereas interest income of $2.9 million would have been recognized under their original loan terms. We had no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at December 31, 2010. No accruing loans were contractually past due by 90 days or more at December 31, 2010 or 2009.

From time to time, we agree to modify the contractual terms of a borrower s loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on nonaccrual status until we determine that future collection of principal and interest is reasonably assured, which requires that the borrower demonstrate performance according to the restructured terms generally for a period of at least six months. Loans modified in a troubled debt restructuring which are included in nonaccrual loans totaled $14.6 million at December 31, 2010 and $11.0 million at December 31, 2009. Excluded from nonaccrual loans are restructured loans that have complied with the terms of their restructured agreement for six months or such longer period as management deems appropriate for particular loans, and have therefore, been returned to accruing status. Restructured accruing loans totaled $22.5 million at December 31, 2010 and $21.5 million at December 31, 2009.

We update our estimates of collateral value for non-performing loans which are 90 days or more delinquent, at least annually, and for certain other loans when the Internal Asset Review Committee believes repayment of such loans may be dependent on the value of the underlying collateral. For one to four-family mortgage loans, updated estimates of collateral value are obtained through appraisals, automated valuation models and broker price opinions. For multi-family and commercial real estate properties, we estimate collateral value through appraisals, broker price opinions, or internal cash flow analyses when current financial information is available, coupled with, in most cases, an inspection of the property. When the collateral value is less than the recorded investment in the loan, we establish a valuation allowance equal to the amount of the deficiency. See Allowance for Loan Losses for full discussion of the allowance for loan losses.

REO is real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at the lower of cost or fair value less estimated selling costs. Any excess of carrying value over fair value at the time of acquisition is charged to the allowance for loan losses. Thereafter, we maintain an allowance for losses representing decreases in the properties estimated fair value through provisions which are charged to income along with any additional property maintenance and protection expenses incurred as a result of owning the property. At December 31, 2010, we had $3.0 million in REO which consisted of three one to four-family residential properties, three multi-family residential properties and five commercial real estate properties, three of which were secured by church buildings. We had $2.1 million in REO at December 31, 2009.

If recent trends in the housing and commercial real estate markets continue, loan delinquencies and credit losses may also continue. Although we believe our underwriting and loan review procedures are appropriate for the various kinds of loans we originate or purchase, our results of operations and financial condition will be adversely affected in the event the quality of our loan portfolio continues to deteriorate. Therefore, one of our most important operating objectives is to improve asset quality. Management is using a number of strategies to achieve this goal, including maintaining what we believe to be sound credit standards in loan originations, monitoring the loan portfolio through independent internal loan reviews, and employing active collection and workout processes for delinquent or problem loans.

Table of Contents

Classification of Assets

Federal regulations and our internal policies require that we utilize an asset classification system as a means of monitoring and reporting problem and potential problem assets. We have incorporated asset classifications as a part of our credit monitoring system and thus classify problem assets and potential problem assets as Substandard, Doubtful or Loss assets. An asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all of the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as Loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories, but that are considered to possess some weaknesses, are designated Special Mention.

The following table provides information regarding our classified assets at the dates indicated.

	December 31, 2010		December 31, 2009	
	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans
		(Dollars in thousands)		
Special Mention	72	$ 38,333	13	$ 7,720
Substandard	118	94,054	68	53,985
Doubtful	1	270	2	4,000
Loss	2	16	12	4,431
Total	193	$ 132,673	95	$ 70,136

Allowance for Loan Losses

In originating loans, we recognize that losses will be experienced on loans and that the risk of loss may vary as a result of many factors, including the type of loan being made, the creditworthiness of the borrower, general economic conditions and, in the case of a secured loan, the quality of the collateral for the loan. We maintain an allowance for loan losses to absorb losses inherent in our loan portfolio. This allowance represents management s best estimate of the probable incurred and inherent credit losses in our loan portfolio as of the date of the consolidated financial statements.

The allowance for loan losses is evaluated on a monthly basis by management and the Board of Directors and is based upon management s periodic review of the collectability of the loans in light of historical loss experience, portfolio volume and mix, geographic concentrations, estimated credit losses based on internal and external portfolio reviews for a select segment of our loan portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of the underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as circumstances change or as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDR) and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis. If a loan is impaired, a portion of the allowance is allocated to the loan so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment and, accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses. At December 31, 2010, impaired loans totaled $58.0 million and had an aggregate specific allowance allocation of $6.0 million.

The general component covers non impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 18 months. We believe that using the loss experience for the most recent 18 months is reflective of the current economic downturn and weakness in the real estate market. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Based on our evaluation of the continued weakness in the housing and real estate markets and overall economy, in particular, the continued high unemployment rate in the communities we serve and the increase in and composition of our delinquencies, non-performing loans and net loan charge-offs and feedback from OTS and FDIC examination and an independent third party review of our loan portfolio, we determined that an allowance for loan losses of $20.5 million was required at December 31, 2010, unchanged from $20.5 million at December 31, 2009.

In addition to the requirements of U.S. generally accepted accounting principles (GAAP) related to loss contingencies, a federally chartered savings association s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OTS. While we believe that the allowance for loan losses has been established and maintained at adequate levels, future adjustments may be necessary if economic or other conditions differ materially from the conditions on which we based our estimates at December 31, 2010. In addition, there can be no assurance that the OTS or other regulators, as a result of reviewing our loan portfolio and/or allowance, will not require us to materially increase our allowance for loan losses, thereby affecting our financial condition and earnings.

Table of Contents

The following table sets forth the activity in our allowance for loan losses for the years indicated.

	2010	2009	2008	2007	2006
			(Dollars in thousands)		
Allowance balance at beginning of year	$ 20,460	$ 3,559	$ 2,051	$ 1,730	$ 1,455
Charge-offs	(4,472)	(2,728)	(3)	-	(5)
Recoveries	5	-	139	-	-
Provision charged to earnings	4,465	19,629	1,372	321	280
Allowance balance at end of year	$ 20,458	$ 20,460	$ 3,559	$ 2,051	$ 1,730
Net charge-offs (recoveries) to average loans, excluding loans held for sale	0.97%	0.64%	(0.04%)	0.00%	0.00%
Allowance for loan losses as a percentage of gross loans, excluding loans held for sale	5.08%	4.52%	1.06%	0.68%	0.69%
Allowance for loan losses as a percentage of total nonaccrual loans	47.10%	58.59%	102.77%	6,032.35%	5,088.24%
Allowance for loan losses as a percentage of total non-performing assets	44.03%	55.31%	102.77%	6,032.35%	5,088.24%

The following table sets forth our allocation of the allowance for loan losses to the various categories of loans and the percentage of loans in each category to total loans at the dates indicated. The allocations are for management s analytical purposes only. The entire allowance is available for losses on any type of loan.

	December 31,									
	2010		2009		2008		2007		2006	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
					(Dollars in thousands)					
One to four-units	$ 3,619	20.56%	$ 4,292	20.03%	$ 239	20.25%	$ 89	11.59%	$ 71	10.08%
Five or more units	1,728	31.92%	1,650	32.28%	688	25.93%	612	37.21%	709	52.42%
Commercial real estate	3,257	18.08%	1,877	18.16%	745	19.77%	644	19.62%	663	24.11%
Church	8,662	24.25%	9,257	22.29%	809	24.85%	360	23.23%	87	7.06%
Construction	168	1.35%	87	1.22%	58	1.63%	54	0.67%	23	0.83%
Commercial	1,373	3.02%	2,018	5.11%	621	6.61%	245	7.43%	132	4.89%
Consumer	1,651	0.82%	1,279	0.91%	265	0.96%	47	0.25%	45	0.61%
Unallocated	-	-	-	-	134	-	-	-	-	-
Total allowance for loan losses	$ 20,458	100.00%	$ 20,460	100.00%	$ 3,559	100.00%	$ 2,051	100.00%	$ 1,730	100.00%

Investment Activities

The main objectives of our investment strategy are to provide a source of liquidity for deposit outflows, repayment of borrowings and loan fundings, and to generate a favorable return on investments without incurring undue interest rate or credit risk. Subject to various restrictions, our investment policy generally permits investments in money market instruments such as Federal Funds Sold, certificates of deposit of insured banks and savings institutions, direct obligations of the U. S. Treasury, Federal Agency securities, Agency-issued securities and mortgage-backed securities, mutual funds, municipal obligations, corporate bonds and marketable equity securities. Mortgage-backed securities consist principally of FNMA, FHLMC and GNMA securities backed by 30-year amortizing hybrid ARM loans, structured with fixed interest rates for periods of three to seven

13

years, after which time the loans convert to one-year or six-month adjustable rate mortgage loans. At December 31, 2010, our securities portfolio consisted primarily of residential mortgage-backed securities and totaled $23.2 million, or 5% of total assets.

We classify investments as held-to-maturity or available-for-sale at the date of purchase based on our assessment of our internal liquidity requirements. Securities in the held-to-maturity category consist of securities purchased for long-term investment in order to enhance our ongoing stream of net interest income. Securities deemed held-to-maturity are classified as such because we have both the intent and ability to hold these securities to maturity. Securities purchased to meet investment-related objectives such as liquidity management or interest rate risk and which may be sold as necessary to implement management strategies, are designated as available-for-sale at the time of purchase. Held-to-maturity securities are reported at cost, adjusted for amortization of premium and accretion of discount. Available-for-sale securities are reported at fair market value. We currently have no securities classified as trading securities.

The following table sets forth information regarding the carrying amount and fair values of our securities at the dates indicated.

	December 31,					
	2010		2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)					
Held-to-maturity:						
Residential mortgage-backed securities	$ 11,737	$ 12,162	$ 15,285	$ 15,745	$ 21,792	$ 21,701
U.S. Government and federal agency	1,000	1,099	1,000	1,093	1,000	1,104
Available-for-sale:						
Residential mortgage-backed securities	10,524	10,524	14,961	14,961	4,222	4,222
Total	$ 23,261	$ 23,785	$ 31,246	$ 31,799	$ 27,014	$ 27,027

The table below sets forth certain information regarding the carrying amount, weighted average yields and contractual maturities of our securities as of December 31, 2010. The table reflects stated final maturities and does not reflect scheduled principal payments.

	At December 31, 2010									
	One Year or less		More than one year to five years		More than five years to ten years		More than ten years		Total	
	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield
	(Dollars in thousands)									
Held-to-maturity:										
Residential mortgage-backed securities	$ -	-%	$ -	-%	$ -	-%	$ 11,737	2.38%	$ 11,737	2.38%
U.S. Government and federal agency	-	-%	1,000	5.00%	-	-%	-	-%	1,000	5.00%
Available-for-sale:										
Residential mortgage-backed securities	$ -	-%	$ -	-%	$ 4,786	3.49%	$ 5,738	5.09%	$ 10,524	4.36%
Total	$ -	-%	$ 1,000	5.00%	$ 4,786	3.49%	$ 17,475	3.27%	$ 23,261	3.39%

14

Table of Contents

Sources of Funds

General

Deposits are our primary source of funds for supporting our lending and other investment activities and general business purposes. In addition to deposits, we obtain funds from the amortization and prepayment of loans and residential mortgage-backed securities, sales of loans and residential mortgage-backed securities, advances from the FHLB, and cash flows generated by operations.

Deposits

We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits principally consist of passbook savings accounts, non-interest bearing checking accounts, NOW and other demand accounts, money market accounts, and fixed-term certificates of deposit. The maturities of term certificates generally range from one month to five years. We accept deposits from customers within our market area based primarily on posted rates but from time to time negotiate the rate on these instruments commensurate with the size of the deposit. We rely primarily on customer service and long-standing relationships with customers to attract and retain deposits. We seek to maintain and increase our retail core deposit relationships, consisting of customers with passbook accounts, checking accounts, non-interest bearing demand accounts and money market accounts, which we believe tend to be more stable and available at a lower cost than other, longer term types of deposits. However, market interest rates, including rates offered by competing financial institutions, the availability of other investment alternatives, and general economic conditions significantly affect our ability to attract and retain deposits.

In late 2008, we began to open deposit accounts through the internet for customers in the United States. We also generate term certificates through the use of brokers and internet-based network deposits. We participate in a deposit program called Certificate of Deposit Account Registry Service (CDARS). CDARS is a deposit placement service that allows us to place our customers funds in FDIC-insured certificates of deposits at other banks and, at the same time, receive an equal sum of funds from the customers of other banks in the CDARS Network. The majority of CDARS deposits are gathered within our geographic footprint through established customer relationships. At December 31, 2010, we had approximately $18.2 million in brokered deposits, of which $8.9 million were CDARS. This compared to $101.0 million in brokered deposits at December 31, 2009, of which $71.2 million were CDARS.

In March 2010, the OTS directed that the Bank not increase the dollar amount of its brokered deposits above the amount that it had as of March 1, 2010 without the prior written non-objection of the OTS Regional Director. Under applicable regulations, the term brokered deposits includes both deposits acquired through third party brokers and deposits that an institution solicits by offering rates of interest that are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions in the institution s normal market area.

The following table sets forth the maturity periods of our certificates of deposit in amounts of $100 thousand or more at December 31, 2010.

	December 31, 2010	
	Amount	**Weighted average rate**
	(Dollars in thousands)	
Certificates maturing:		
Less than three months	$ 40,087	0.87%
Three to six months	15,450	1.40%
Six to twelve months	32,376	2.43%
Over twelve months	72,134	2.62%
Total	$ 160,047	2.02%

Table of Contents

The following table sets forth the distribution of our average deposits for the years indicated and the weighted average interest rates during the year for each category of deposits presented.

	For the Year Ended December 31, 2010			2009			2008		
	Average balance	Percent of total	Weighted average rate	Average balance	Percent of total	Weighted average rate	Average balance	Percent of total	Weighted average rate
	(Dollars in thousands)								
Money market deposits	$ 27,701	7.16%	0.66%	$ 33,719	9.41%	1.57%	$ 29,035	10.98%	2.43%
Passbook deposits	37,574	9.71%	0.43%	37,763	10.54%	0.82%	39,378	14.89%	1.39%
NOW and other demand deposits	47,077	12.16%	0.22%	64,967	18.13%	1.17%	39,853	15.07%	0.76%
Certificates of deposits	274,641	70.97%	1.99%	221,863	61.92%	2.40%	156,228	59.06%	3.60%
Total	$ 386,993	100.00%	1.53%	$ 358,312	100.00%	1.93%	$ 264,494	100.00%	2.71%

Borrowings

We utilize short-term and long-term advances from the FHLB of San Francisco as an alternative to retail deposits as a funding source for asset growth. FHLB advances are generally secured by mortgage loans and mortgage-backed securities. Such advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLB will advance to member institutions fluctuates from time to time in accordance with the policies of the FHLB. At December 31, 2010, we had outstanding $87.0 million in FHLB advances and had the ability to borrow up to an additional $35.4 million based on available and pledged collateral. However, on February 18, 2011, the Company s general borrowing limit was reduced to $100.0 million, which decreased our remaining borrowing capacity to $13.0 million as of February 18, 2011.

The following table sets forth information concerning our FHLB advances at or for the periods indicated.

	At or For the Year Ended 2010	2009	2008
	(Dollars in thousands)		
FHLB Advances:			
Average balance outstanding during the year	$ 87,897	$ 76,433	$ 89,404
Maximum amount outstanding at any month-end during the year	$ 88,000	$ 91,600	$ 114,000
Balance outstanding at end of year	$ 87,000	$ 91,600	$ 74,000
Weighted average interest rate during the year	3.33%	3.70%	3.99%
Weighted average interest rate at end of year	3.24%	3.23%	3.74%

In March 2004, the Company issued $6.0 million of Floating Rate Junior Subordinated Debentures, in a private placement which, subject to limitations, are includable as secondary capital for certain regulatory capital measures. The debentures mature 10 years from the issue date and interest is payable quarterly at a rate per annum equal to the 3-month LIBOR plus 2.54%. The interest rate is determined as of each March 17, June 17, September 17, and December 17, and was 2.84% at December 31, 2010. The Company has not paid interest on the debentures since September 2010. As disclosed in Note 15 Regulatory Capital Matters and Capital Purchase Program of the Notes to Consolidated Financial Statements, the Company is not permitted to make payments on any debts without prior notice to and receipt of written notice of non-objection from the OTS Regional Director. In addition, under the terms of the subordinated debentures, the Company is not allowed to make payments on the subordinated debentures if the Company is in default on any of its senior indebtedness, which term includes the senior line of credit described below.

On February 28, 2010, we borrowed an aggregate of $5.0 million under our $5.0 million line of credit with another financial institution and invested all of the proceeds in the equity capital of the Bank. The interest rate on

16

Table of Contents

the line of credit adjusts annually, subject to a minimum of 6.00% and to an increase by the addition of 5% on default. Borrowings under the line of credit are secured by the Company s assets. This senior line of credit became due and payable on July 31, 2010 and has not been repaid and we are now in default under the line of credit agreement. Under the terms of the cease and desist order issued to us and the Bank by the OTS, we are not permitted to make any payments on this senior line of credit, or to obtain dividends from the Bank for that purpose or any other purpose without the prior approval of the OTS. See Item 7 Management s Discussion and Analysis Liquidity in Part II of this Report for further information.

Market Area and Competition

Broadway Federal is a community-oriented savings institution offering a variety of financial services to meet the needs of the communities it serves. Our retail banking network includes full service banking offices, automated teller machines and internet banking capabilities. We have four banking offices in Los Angeles, one banking office located in the nearby City of Inglewood and two loan production offices in the Cities of Irvine and Torrance.

The Los Angeles metropolitan area is a highly competitive market in which we face significant competition in making loans and in attracting deposits. Although our offices are primarily located in low and moderate income minority areas that have historically been under-served by other financial institutions, we are facing increasing competition for deposits and residential mortgage lending in our immediate market areas, including direct competition from mortgage banking companies, commercial banks and savings and loan associations. Most of these financial institutions are significantly larger than we are and have greater financial resources, and many have a regional, statewide or national presence.

Personnel

At December 31, 2010, we had 81 employees, which consisted of 71 full-time and 10 part-time employees. We believe that we have good relations with our employees and none are represented by a collective bargaining group.

Regulation

General

Broadway Federal Bank is regulated by the OTS and the Company is registered with and subject to examination by the OTS as a savings and loan holding company. The Bank is subject to regulation and examination by the OTS with respect to most of its business activities, including, among other things, capital standards, general investment authority, deposit taking and borrowing authority, mergers and other business combination transactions, establishment of branch offices, and permitted subsidiary investments and activities. The OTS s operations, including examination activities, are funded by assessments levied on its regulated institutions.

Our customer deposits are insured by the Deposit Insurance Fund (DIF) of the FDIC to the extent provided by applicable federal law. Insurance on deposits may be terminated by the FDIC if it finds that the Bank has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS as the Bank s primary regulator.

Broadway Federal is a federally chartered savings bank and a member of the FHLB System. We are further subject to the regulations of the Board of Governors of the Federal Reserve System (FRB) concerning reserves required to be maintained against deposits, transactions with affiliates, Truth in Lending and other consumer protection requirements and certain other matters. The Company is also required to file certain reports with and otherwise comply with the rules and regulations of the Securities and Exchange Commission (SEC) under the federal securities laws.

Table of Contents

Changes in the applicable laws or regulations of the OTS, the FDIC or other regulatory authorities could have a material adverse impact on the Bank and the Company, their operations, and the value of the Company s debt and equity securities.

The following paragraphs summarize certain of the laws and regulations that apply to us and to the Bank. These descriptions of statutes and regulations and their possible effects do not purport to be complete descriptions of all of the provisions of those statutes and regulations and their possible effects on us, nor do they purport to identify every statute and regulation that may apply to us.

Cease and Desist Orders

In March 2010, based on information obtained during a regulatory examination of the Bank, the Company and Bank were determined to be in troubled condition and agreed to the issuance of cease and desist orders to them by the OTS effective September 09, 2010. We refer to these orders collectively as the C&D. The C&D imposes limitations on the Company and the Bank, including the following, among others:

- The Bank may not increase its total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the prior quarter without the prior written notice to and receipt of notice of non-objection from the OTS Regional Director.
- Neither the Company nor the Bank may declare or pay any dividends or make any other capital distributions without the prior written approval of the OTS Regional Director.
- Neither the Company nor the Bank may make any changes in its directors or senior executive officers without prior notice to and receipt of notice of non-objection from the OTS.
- The Company and the Bank are subject to limitations on severance and indemnification payments and on entering into or amending employment agreements and compensation arrangements, and on the payment of bonuses to Bank directors and officers.
- The Company may not incur, issue, renew, repurchase, make payments on or increase any debt or redeem any capital stock without prior notice to and receipt of written notice of non-objection from the OTS Regional Director.
- The Bank is not permitted to increase the amount of its brokered deposits beyond the amount of interest credited without prior notice to and receipt of notice of non-objection from the OTS Regional Director.

Consistent with the C&D, we have taken actions to address the concerns expressed by the OTS, including the following:

- Improved our regulatory capital so the our capital now exceeds the required Core Capital ratio of 8.00% and Total Risk Based Capital ratio of 12.00%; the Bank s Core Capital ratio was 8.82% and its Total Risk Based Capital ratio was 13.05% at December 31, 2010, compared to 6.69% and 10.19%, respectively, at December 31, 2009;
- Increased liquidity by $10.1 million, from $22.4 million at December 31, 2009 to $32.5 million at December 31, 2010, and increased liquid assets to 179% of brokered deposits at December 31, 2010 from 22% at December 31, 2009;
- Substantially reduced brokered deposits, by $82.8 million, to $18.2 million at year end;

Completed a comprehensive external review of our loan portfolio Over 76% of the dollar amount of the gross loan portfolio was reviewed by an independent loan review firm in the fourth quarter, including 100% of our church loan portfolio;

Substantially revised the Bank s loan underwriting and internal asset review procedures and other aspects of the Bank s business, as well as the Company s management of its business and the oversight of the Company s business by the Board;

18

Developed and are pursuing a capital plan for increasing our common equity base, as described under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources.

Recent Regulatory Reform Legislation

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which is intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises.

As a result of the Dodd-Frank Act, on July 21, 2011, or a date within six months thereafter selected by the Secretary of the Treasury, the OTS will be eliminated and the Office of the Comptroller of the Currency (OCC), will become the regulator of all federal savings associations, such as Broadway Federal. The FRB will acquire the OTS s regulatory authority over all savings and loan holding companies, such as Broadway Financial Corporation. As a result, we will become subject to regulation, supervision and examination by the OCC and the FRB, rather than the OTS as is currently the case.

The Dodd-Frank Act also provides for the creation of the Bureau of Consumer Financial Protection (CFPB). The CFPB will have the authority to implement and enforce a variety of existing consumer protection statutes and to issue new regulations.

The Dodd-Frank Act requires the federal banking agencies to establish consolidated risk-based and leverage capital requirements for depository institution holding companies in addition to those for insured depository institutions. These requirements must be no less than those to which insured depository institutions are currently subject to. As a result, in July 2015 we will become subject for the first time to consolidated capital requirements of the types to which bank holding companies have been subject.

The Dodd-Frank Act also includes provision that will change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital and make permanent the $250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.

The Dodd-Frank Act also includes other provisions, subject to further rulemaking by the federal bank regulatory agencies that may affect our future operations. We will not be able to determine the impact of these provisions until final rules are promulgated to implement these provisions and other regulatory guidance is provided interpreting these provisions.

Capital Requirements

The Bank must meet regulatory capital standards to be deemed in compliance with the OTS capital requirements: (1) tangible capital must equal at least 1.5% of total adjusted assets; (2) core capital must generally equal at least 4.0% of total adjusted assets (this ratio is referred to as the leverage ratio); and (3) risk-based capital must equal at least 8.0% of total risk-based assets. In assessing an institution s capital adequacy, the OTS takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions to the extent it considers necessary.

The core capital requirement generally requires a savings institution to maintain a ratio of core capital to adjusted total assets of not less than 4% (3% for certain highly evaluated institutions not experiencing or anticipating significant growth). Core capital includes common stockholders equity (including retained earnings), non-cumulative perpetual preferred stock and any related surplus and minority interests in the equity accounts of fully consolidated subsidiaries. The amount of an institution s core capital is, in general, calculated in accordance GAAP, with certain exceptions. Intangible assets must be deducted from core capital, with certain exceptions and limitations for mortgage servicing rights and certain other intangibles, which may be included on a limited basis.

Table of Contents

A savings institution is required to maintain tangible capital in an amount not less than 1.5% of adjusted total assets. Tangible capital is defined for this purpose to mean core capital less any intangible assets, plus mortgage servicing rights, subject to certain limitations.

The risk-based capital requirements provide that the capital ratios applicable to various classes of assets are to be adjusted to reflect the degree of risk associated with such assets. In addition, the asset base for computing a savings institution s capital requirement includes off-balance sheet items, including assets sold with recourse. Generally, the OTS capital regulations require savings institutions to maintain total capital equal to 8.00% of risk-weighted assets. Total capital for these purposes consists of core capital and supplementary capital. Supplementary capital includes, among other things, certain types of preferred stock and subordinated debt, subject to limitations, and, subject to certain limitations, loan and lease general valuation allowances. At December 31, 2010 and 2009, the general valuation allowance included in our supplementary capital was $4.7 million and $5.0 million, respectively. A savings institution s supplementary capital may be used to satisfy the risk-based capital requirement only to the extent of that institution s core capital.

At December 31, 2010, Broadway Federal exceeded each of these capital requirements as shown in the following table:

	As of December 31,					
	2010			2009		
	Tangible Capital	Tier 1 (Core) Capital	Total Risk-Based Capital	Tangible Capital	Tier 1 (Core) Capital	Total Risk-Based Capital
	(In thousands)					
Equity capital-Broadway Federal (1)	$ 43,166	$ 43,166	$ 43,166	$ 35,514	$ 35,514	$ 35,514
Additional supplementary capital:						
General valuation allowance	-	-	4,669	-	-	5,009
Disallowed mortgage servicing rights assets	(49)	(49)	(49)	(45)	(45)	(45)
Disallowed deferred tax assets	(487)	(487)	(487)	(672)	(672)	(672)
Regulatory capital balances	42,630	42,630	47,299	34,797	34,797	39,806
Minimum requirement	7,252	19,338	29,006	7,803	20,809	31,257
Excess over requirement	$ 35,378	$ 23,292	$ 18,293	$ 26,994	$ 13,988	$ 8,549

(1) Excluding accumulated other comprehensive income, net of taxes.

Prompt Corrective Action

The Bank is also subject to the prompt corrective action (PCA) capital regulations of the OTS and FDIC pursuant to which banks and savings institutions are to be classified into one of five categories based primarily upon capital adequacy, ranging from well capitalized to critically undercapitalized and which require, subject to certain exceptions, the appropriate federal banking agency to take prompt corrective action with respect to an institution which becomes undercapitalized and to take additional actions if the institution becomes significantly undercapitalized or critically undercapitalized.

Under the OTS s PCA regulations, an institution is well capitalized if it has a Total Risk-based capital ratio of 10.00% or greater, has a Tier 1 Risk-based capital ratio (Tier 1 capital to total risk-weighted assets) of 6.00% or greater, has a Core capital ratio of 5.00% or greater and is not subject to any written capital order or directive to meet and maintain a specific capital level or any capital measure. An institution is adequately capitalized if it has a Total Risk-based capital ratio of 8.00% or greater, has a Tier 1 Risk-based capital ratio of 4.00% or greater and has a Core capital ratio of 4.00% or greater (3.00% for certain highly rated institutions).

Table of Contents

The OTS also has authority, after an opportunity for a hearing, to downgrade an institution from well capitalized to adequately capitalized, or to subject an adequately capitalized or undercapitalized institution to the supervisory actions applicable to the next lower category, for supervisory concerns.

In addition to the generally applicable capital requirements summarized above, the C&D requires the Bank to attain, and thereafter maintain, a Tier 1 Capital ratio of at least 8% and a Total Risk-Based capital ratio of at least 12%, both of which ratios are greater than the respective 6% and 10% levels for such ratios that are generally required under OTS regulations. We have met the minimums required to be well capitalized at December 31, 2010 and 2009 based on the prompt corrective action regulations, however we cannot be considered well capitalized due to our current regulatory agreement.

Actual and normally required capital amounts and ratios at December 31, 2010 and 2009, together with the higher capital requirements that the OTS required the Bank to meet, are presented below.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations		Capital Requirements under Cease and Desist Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratios	Amount	Ratios
	(Dollars in thousands)							
December 31, 2010:								
Tangible Capital to adjusted total assets	$ 42,630	8.82%	$ 7,252	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	$ 42,630	8.82%	$ 19,338	4.00%	$ 24,172	5.00%	$ 38,676	8.00%
Tier 1(Core) Capital to risk weighted assets	$ 42,630	11.76%	N/A	N/A	$ 21,754	6.00%	N/A	N/A
Total Capital to risk weighted assets	$ 47,299	13.05%	$ 29,006	8.00%	$ 36,257	10.00%	$ 43,508	12.00%
December 31, 2009:								
Tangible Capital to adjusted total assets	$ 34,797	6.69%	$ 7,803	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	$ 34,797	6.69%	$ 20,809	4.00%	$ 26,011	5.00%	N/A	N/A
Tier 1(Core) Capital to risk weighted assets	$ 34,797	8.91%	N/A	N/A	$ 23,443	6.00%	N/A	N/A
Total Capital to risk weighted assets	$ 39,806	10.19%	$ 31,257	8.00%	$ 39,072	10.00%	N/A	N/A

Deposit Insurance

The FDIC is an independent federal agency that insures deposits of federally insured banks and savings institutions, up to prescribed statutory limits for each depositor, through its DIF. The FDIC charges an annual assessment for the insurance of deposits based on the risk a particular institution poses to the FDIC s Deposit Insurance Fund. The amount of the assessment paid by an institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC s overall premium rate structure is subject to change from time to time to reflect its actual and anticipated loss experience. Since the beginning of the financial crisis in 2008, there have been higher levels of bank failures. These failures have dramatically increased the resolution costs of the FDIC and have depleted the DIF. In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC has increased the assessment rates of insured institutions and may continue to do so in the future. Due to its current designation as being in troubled condition, the Bank has been required to pay a higher FDIC insurance premium assessment rate beginning in 2010. For the fourth quarter of 2010, the Bank s annualized assessment rate was 0.32% of insured deposits, compared to 0.16% of insured deposits for the fourth quarter of 2009.

In 2008, the level of FDIC deposit insurance was temporarily increased from $100,000 to $250,000 per depositor and the increased level of insurance coverage will remain in effect through December 31, 2013. The Dodd-Frank Act permanently raised the standard maximum deposit insurance amount to $250,000.

The FDIC has redefined its deposit insurance premium assessment base to be an institution s average consolidated total assets minus average tangible equity as required by the Dodd-Frank Act and revised its deposit insurance assessment rate schedules in light of the changes to the assessment base. The proposed rate schedule and other revisions to the assessment rules, which were adopted by the FDIC Board of Directors in February 2011, become effective April 1, 2011 and will be used to calculate the June 30, 2011.

The Bank also pays assessments toward the retirement of the Financing Corporation bonds (known as FICO Bonds) issued in the 1980s by its former federal deposit insurer, the Federal Savings and Loan Insurance Corporation, to assist in the recovery of the savings and loan industry. These assessments will continue until the FICO Bonds mature in 2017. For the fourth quarter of 2010, the Bank s annualized FICO assessment rate was 0.01% of insured deposits.

Broadway Federal elected in 2008 to participate in the Transaction Account Guarantee Program (TAGP) which is part of the FDIC s Temporary Liquidity Guarantee Program (TLGP). Broadway Federal declined to participate in the Debt Guarantee Program (DGP), another facility available under TLGP. Through the TAGP, the FDIC provides unlimited deposit insurance coverage for all noninterest-bearing transaction accounts, including traditional non-interest bearing checking accounts and NOW accounts as long as the interest rate does not exceed 0.50 percent. To participate in the TAGP, Broadway Federal paid an additional ten basis point deposit insurance assessment on any deposit amount in excess of $250,000 that was covered by the TAGP. Beginning in 2010, this fee increased to fifteen, twenty or twenty-five basis points, depending on a participating institution s risk category rating.

In place of the TAGP which expired on December 31, 2010, and in accordance with certain provisions of the Dodd-Frank Act, the FDIC adopted further rules in November 2010 which provide for temporary unlimited insurance coverage of certain non-interest bearing transaction accounts. Such coverage begins on December 31, 2010 and terminates on December 31, 2012.

Guidance on Commercial Real Estate Lending

On October 30, 2009, the federal banking agencies adopted a policy statement supporting commercial real estate (CRE) loan workouts, which is referred to as the CRE Policy Statement. The CRE Policy Statement provides guidance for examiners, and for financial institutions that are working with CRE borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. The CRE Policy Statement details risk-management practices for loan workouts that support prudent and pragmatic credit and business decision-making within the framework of financial accuracy, transparency, and timely loss recognition. The CRE Policy Statement states that financial institutions that implement prudent loan workout arrangements after performing comprehensive reviews of borrowers financial conditions will not be subject to criticism for engaging in these efforts, even if the restructured loans have weaknesses that result in adverse credit classifications. In addition, performing loans, including those renewed or restructured on reasonable modified terms, made to creditworthy borrowers, will not be subject to adverse classification solely because the value of the underlying collateral declined. The CRE Policy Statement reiterates existing guidance that examiners are expected to take a balanced approach in assessing institutions risk-management practices for loan workout activities.

Loans to One Borrower

Savings institutions generally are subject to the lending limits that are applicable to national banks. With certain limited exceptions, the maximum amount that a savings institution may lend to any borrower (including certain related persons or entities of such borrower) is an amount equal to 15% of the savings institution s unimpaired capital and unimpaired surplus, or $8.9 million for Broadway Federal at December 31, 2010, plus an additional 10% for loans fully secured by readily marketable collateral. Real estate is not included within the definition of readily marketable collateral for this purpose. We are in compliance with the applicable loans to one borrower limitations. At December 31, 2010, our largest aggregate amount of loans to one borrower totaled $4.5 million. Both of the loans for the largest borrower were performing in accordance with their terms and the borrower had no affiliation with Broadway Federal.

Community Reinvestment Act

The Community Reinvestment Act (CRA) requires each savings institution, as well as other lenders, to identify the communities served by the institution s offices and to identify the types of credit the institution is prepared to extend within those communities. The CRA also requires the OTS to assess the performance of the institution in meeting the credit needs of its communities as part of its examination of a savings institution, and to take such assessments into consideration in reviewing applications for mergers, acquisitions and other transactions. An unsatisfactory CRA rating may be the basis for denying an application. Community groups have successfully protested applications on CRA grounds. In connection with the assessment of a savings institution s CRA performance, the OTS assigns ratings of outstanding, satisfactory, needs to improve or substantial noncompliance. The Bank was rated outstanding in its most recent CRA examination.

Qualified Thrift Lender Test

Savings institutions regulated by the OTS are subject to a qualified thrift lender (QTL) test, which in general requires such an institution to maintain on an average basis at least 65% of its portfolio assets (as defined) in qualified thrift investments. Qualified thrift investments include, in general, loans, securities and other investments that are related to housing, shares of stock issued by any Federal Home Loan Bank, loans for educational purposes, loans to small businesses, loans made through credit cards or credit card accounts and certain other permitted thrift investments. A savings institution s failure to remain a QTL may result in conversion of the institution to a bank charter or operation under certain restrictions including limitations on new investments and activities, and the imposition of the restrictions on branching and the payment of dividends that apply to national banks. At December 31, 2010, the Bank was in compliance with the QTL test requirements.

The USA Patriot Act, Bank Secrecy Act (BSA), and Anti-Money Laundering (AML) Requirements

The USA PATRIOT Act was enacted after September 11, 2001 to provide the federal government with powers to prevent, detect, and prosecute terrorism and international money laundering, and has resulted in promulgation of several regulations that have a direct impact on savings associations. Financial institutions must have a number of programs in place to comply with this law, including: (i) a program to manage BSA/AML risk; (ii) a customer identification program designed to determine the true identity of customers, document and verify the information, and determine whether the customer appears on any federal government list of known or suspected terrorist or terrorist organizations; and (iii) a program for monitoring for the timely detection and reporting of suspicious activity and reportable transactions.

Privacy Protection

Broadway Federal is subject to OTS regulations implementing the privacy protection provisions of the Gramm-Leach Bliley Act, or Gramm-Leach. These regulations require Broadway Federal to disclose its privacy policy, including identifying with whom it shares nonpublic personal information, to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require Broadway Federal to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, to the extent its sharing of such information is not covered by an exception, Broadway Federal is required to provide its customers with the ability to opt-out of having Broadway Federal share their nonpublic personal information with unaffiliated third parties.

Broadway Federal is also subject to regulatory guidelines establishing standards for safeguarding customer information. These regulations implement certain provisions of Gramm-Leach. The guidelines describe the agencies expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Savings and Loan Holding Company Regulation

As a savings and loan holding company, we are subject to certain restrictions with respect to our activities and investments. Among other things, we are generally prohibited, either directly or indirectly, from acquiring more than 5% of the voting shares of any savings association or savings and loan holding company that is not a subsidiary of the Company.

OTS approval must be obtained prior to any person acquiring control of the Company or Broadway Federal. Control is conclusively presumed to exist if, among other things, a person acquires more than 25% of any class of voting stock of the institution or holding company or controls in any manner the election of a majority of the directors of the insured institution or the holding company and may be presumed to exist at lower levels of ownership under certain circumstances.

Restrictions on Dividends and Other Capital Distributions

In general, the prompt corrective action regulations prohibit an OTS-regulated institution from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person, such as its parent holding company, if, following the distribution or payment, the institution would be within any of the three undercapitalized categories. In addition to the prompt corrective action restriction on paying dividends, OTS regulations limit certain capital distributions by savings associations. Capital distributions are defined to include, among other things, dividends and payments for stock repurchases and payments of cash to stockholders in mergers.

Under the OTS capital distribution regulations, a savings association that is a subsidiary of a savings and loan holding company must notify the OTS at least 30 days prior to the declaration of any capital distribution by its savings association subsidiary. The 30-day period provides the OTS an opportunity to object to the proposed dividend if it believes that the dividend would not be advisable.

An application to the OTS for approval to pay a dividend is required if: (a) the total of all capital distributions made during that calendar year (including the proposed distribution) exceeds the sum of the institution s year-to-date net income and its retained income for the preceding two years; (b) the institution is not entitled under OTS regulations to expedited treatment (which is generally available to institutions the OTS regards as well run and adequately capitalized); (c) the institution would not be at least adequately capitalized following the proposed capital distribution; or (d) the distribution would violate an applicable statute, regulation, agreement, or condition imposed on the institution by the OTS.

As previously noted, the C&D issued by the OTS prohibits the Company and Bank from declaring or paying any dividends or making any other capital distributions without the prior written approval of the OTS Regional Director.

The Bank s ability to pay dividends to the Company is also subject to the restriction that the Bank is not permitted to pay dividends to the Company if its regulatory capital would be reduced below the amount required for the liquidation account established in connection with the conversion of the Bank from the mutual to the stock form of organization.

See Item 5, Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities and Note 15 Regulatory Capital Matters and Capital Purchase Program of the Notes to Consolidated Financial Statements for a further description of dividend and other capital distribution limitations to which the Company and the Bank are subject.

Tax Matters

Federal Income Taxes

We report our income on a calendar year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with certain exceptions, including particularly the Bank s tax reserve for bad debts. The Bank has qualified under provisions of the Internal Revenue Code (the Code) that in the past allowed qualifying savings institutions to establish reserves for bad debts, and to make additions to such reserves, using certain preferential methodologies. Under the relevant provisions of the Code as currently in effect, a small bank (a bank with $500 million or less of assets) may continue to utilize a reserve method of accounting for bad debts, under which additions to reserves are based on the institution s six-year average loss experience. Broadway Federal qualifies as a small bank and has utilized the reserve method of accounting for bad debts based on its actual loss experience.

California Taxes

As a savings and loan holding company filing California franchise tax returns on a combined basis with its subsidiaries, the Company is subject to California franchise tax at the rate applicable to financial corporations. The applicable tax rate is the rate for general corporations plus 2%. Under California regulations, bad debt deductions are available in computing California franchise taxes using a three or six year average loss experience method.

Table of Contents

ITEM 2. PROPERTIES

We conduct our business through five branch offices and two loan production offices. Our loan service operation is also conducted from one of our branch offices. Our administrative and corporate operations are conducted from our corporate facility located at 4800 Wilshire Boulevard, Los Angeles, which also houses one of our branch offices. There are no mortgages, material liens or encumbrances against any of our owned properties. We believe that all of the properties are adequately covered by insurance, and that our facilities are adequate to meet our present needs.

Location	Leased or Owned	Original Date Leased or Acquired	Date of Lease Expiration	Net Book Value of Property or Leasehold Improvements at December 31, 2010 (In thousands)
Administrative/Branch Office/Loan Origination Center: 4800 Wilshire Blvd Los Angeles, CA	Owned	1997	-	$ 1,780
Branch Offices: 4835 West Venice Blvd. Los Angeles, CA	Building Owned on Leased Land	1965	2013	$ 83
170 N. Market Street Inglewood, CA (Branch Office/Loan Service Center)	Owned	1996	-	$ 741
4001 South Figueroa Street Los Angeles, CA	Owned	1996	-	$ 1,870
4371 Crenshaw Blvd., Suite C Los Angeles, CA	Leased	2007	2012	$ 182
Loan Production Offices: 19800 MacArthur Blvd, Suite 300 Irvine, CA	Leased	2005	2011	-
2400 West Carson Street, Suite 215 Torrance, CA	Leased	2007	2012	-

ITEM 3. LEGAL PROCEEDINGS

Litigation

The Bank is the defendant in Daniel D. Holliday III, Attorney at Law, LLC (Holliday) 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, November 20, 2009 and May 24, 2010. This legal action arises from a dispute over the priority of the Bank s lien against a $2.6 million 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. The plaintiff also seeks injunctive relief to prevent the Bank from asserting a senior security interest in the deposit account and to prevent the Bank from applying the funds in the deposit account to satisfy the amount owing on the loan.

On April 17, 2009, the Bank filed a cross-complaint against Holliday (as an individual), Bachmann Springs Holdings, LLC (the developer), Thomas T. Bachmann (the principal of the developer), Robert Estareja (an agent

Table of Contents

of Bachmann Springs Holdings), Alan Roberson (the loan broker), Canyon Acquisitions, LLC (Canyon) (the broker who located the investors for the real estate project at issue and the entity funding Holliday s fees and costs), and Brent Borland (Canyon s principal), alleging causes of action for: declaratory relief, money due on default on promissory note, judicial foreclosure on personal property, money lent, fraud, negligent misrepresentation, conspiracy, implied equitable indemnity, rescission based on fraud, and equitable subordination. The allegations of the cross-complaint include that, among other things, the cross-defendants conspired with each other to fraudulently induce the Bank to make the loan at issue.

On or about October 27, 2009, Holliday filed and served a motion for leave to file a third amended complaint, which motion was granted on November 20, 2009. In addition to the causes of action pleaded against the Bank in the second amended complaint, the proposed third amended complaint includes a cause of action against the Bank for equitable subordination as well as causes of action against Wayne Standback, a vice-president of the Bank (Mr. Standback passed away on October 13, 2009) and Paul Hudson, the Chairman and CEO of the Bank, for negligence and conspiracy. Broadway filed a demurrer to and motion to strike the third amended complaint, the hearing on which took place on May 14, 2010. The demurrer was sustained. The fourth amended complaint, which was served on May 24, 2010, contains the same causes of action as the third amended complaint. Mr. Standback, however, is no longer a defendant. Hudson demurred to the fourth amended complaint and the Bank filed an answer.

Holliday and the Bank participated in mediation before a retired Superior Court judge on December 10, 2009 during which the parties attempted to resolve all of the disputes set forth in the pleadings and in counsel s letter dated October 9, 2009. However, the parties were not successful in reaching a settlement.

On January 21, 2010, the court set a trial date in the Holliday matter for October 5, 2010, which as detailed below has been continued.

On February 1, 2010, Canyon filed a complaint in Los Angeles County Superior Court against the Bank and several of its officers and directors including Paul Hudson, Kellogg Chan, Javier Leon, Odell Maddox, Rick McGill, Daniel Medina, and Virgil Roberts, and certain non-Bank related defendants, for declaratory relief, breach of contract, interference with economic relations, negligence, intentional concealment, conspiracy, breach of fiduciary duty, and equitable subordination (Canyon Acquisitions, LLC v. Broadway Federal Bank, Case No. BC 431035). The complaint arises out of the same transaction that is the subject of the Holliday lawsuit discussed above. The Bank notified the court of this fact, which deemed the cases related. In the complaint, Canyon seeks general damages of not less than $10,000,000 and punitive damages in an unspecified amount. Service of the Canyon Complaint was effective as of March 16, 2010. The Bank has filed a demurrer to and motion to strike the complaint, the hearings on which were set for June 18, 2010. However, on June 18, 2010, Canyon filed a first amended complaint alleging similar causes of action and the scheduled hearing was not held. Then, on June 23, 2010, Canyon filed a motion to (1) consolidate the Canyon and Holliday lawsuits and (2) treat the Canyon lawsuit as a cross-complaint in the Holliday lawsuit. The hearing on Canyon s motion was set for July 16, 2010.

However, on July 16, 2010, pursuant to the Stipulation between the parties, which was approved by the Court, the two cases (Holliday and Canyon) were consolidated, the Canyon Complaint is treated as a cross-complaint in the Holliday lawsuit, the trial was postponed from October 5, 2010 to May 10, 2011, and the following individuals were dismissed from the litigation with prejudice: all of the Broadway officers and directors who had been named as individual defendants in the Holliday and Canyon matters, Brent Borland, Daniel Holliday, III (as an individual only), and the Estate of Wayne Standback.

On August 31, 2010, the Bank filed a demurrer to Canyon s cross-complaint, the hearing on which took place on December 8, 2010. At the hearing, the Court overruled the Bank s demurrer to Canyon s Second Cause of Action for Breach of Contract and sustained the Bank s demurrer to Canyon s Seventh Cause of Action for Breach of Fiduciary Duty without leave to amend. The Bank subsequently filed an answer to Canyon s cross-complaint and asserted various affirmative defenses.

With respect to the foregoing matters, management has established a $1.5 million specific allocation of the allowance for loan losses for the related $2.2 million loan as of December 31, 2010.

OTS Investigation

The OTS is conducting a formal investigation of the activities of a former loan officer of the Bank whose employment was terminated in March 2010. In connection with the investigation the OTS has issued subpoenas to the chief lending officer and chief executive officer requesting documents relating to our loan officer and loans he originated while employed by the Bank. The subpoenas also contemplate taking oral testimony from the officers. While the OTS has not informed us of the scope of its investigation, we believe the OTS investigation includes, but may not be limited to, inquiry into whether documentation submitted in connection with loan applications for loans originated by the loan officer contained inaccurate or deliberately falsified information and whether the loan officer received unauthorized direct or indirect benefits from payments made by the borrowers on such loans to loan brokers or other persons associated with the lending process. All of the loans originated by the former loan officer have been reviewed by us and by the independent loan review firm we engaged to perform a general review of our loan portfolio pursuant to the C&D issued to us by the OTS. See Item 1. Business Regulation Cease and Desist Orders. We have taken the results of these loan reviews into account, along with all other relevant information known to us, in determining the amounts of our loan loss provisions and the level of our loan loss reserves that we believe to be appropriate as of December 31, 2010.

ITEM 4. REMOVED AND RESERVED

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Capital Market under the symbol BYFC. The table below shows the high and low sale prices for our common stock during the periods indicated.

2010	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$7.00	$6.09	$3.71	$3.77
Low	$5.63	$1.82	$1.78	$1.68

2009	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$5.24	$8.00	$7.60	$7.70
Low	$3.84	$4.15	$4.75	$4.08

The closing sale price for our common stock on the Nasdaq Capital Market on March 15, 2011 was $2.20 per share. As of March 15, 2011, we had 399 shareholders of record and 1,743,965 shares of common stock outstanding.

We paid quarterly dividends on our Common Stock at the rate of $0.05 per share during 2009 and reduced the quarterly dividends to $0.01 per share during the first quarter of 2010. Effective June 2010, as discussed below, we stopped paying dividends in order to retain capital for reinvestment in the Company s business. In general, we may pay dividends out of funds legally available for that purpose at such times as our Board of Directors determines that dividend payments are appropriate, after considering our net income, capital requirements, financial condition, alternate investment options, prevailing economic conditions, industry practices and other factors deemed to be relevant at the time. However, pursuant to the C&D order issued to the Company and the Bank by the OTS in September 2010, neither the Company nor the Bank may declare or pay dividends or make other capital distributions, which term includes repurchases of stock, without receipt of prior written notice of non-objection to such capital distribution from the OTS Regional Director. In addition, we agreed in connection with our issuance of Series D and Series E Senior Preferred Stock to the U.S. Treasury that we would not pay cash dividends on our common stock at a quarterly rate greater than $0.05 per share, or redeem, purchase or acquire any of our common stock or other equity securities, without the prior approval of the U.S. Treasury while the Series D or Series E Senior Preferred Stock remain outstanding.

Our ability to pay permitted dividends is primarily dependent upon receipt of dividends from Broadway Federal. Broadway Federal is subject to certain requirements, in addition to the OTS directive referred to above, which may limit its ability to pay dividends or make other capital distributions. See Item 1, Business Regulation and Note 15 Regulatory Capital Matters and Capital Purchase Program of the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data for an explanation of the impact of regulatory capital requirements on Broadway Federal s ability to pay dividends.

Table of Contents

Equity Compensation Plan Information

The following table provides information about the Company s common stock that may be issued under equity compensation plans as of December 31, 2010.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
Performance equity plan	600	$ -	-
1996 Long term incentive plan	70,918	$ 9.27	-
Stock option plan for outside directors	4,282	$ 9.91	-
2008 Long term incentive plan	151,875	$ 5.31	199,843
Equity compensation plans not approved by security holders:			
None	-	-	-
Total	227,675	$ 6.61	199,843

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Overview

During the year ended December 31, 2010, the national economy stabilized from the volatility experienced in 2008 and 2009 and showed signs of improvement as evidenced by, among other things, a decrease in the unemployment rate and moderate job growth. However, softness in the housing and real estate markets persist and unemployment levels remain elevated with a national unemployment rate of 9.4% for December 2010. The recent financial crisis and continued concern for the stability of the banking and financial systems resulted in the passage of the Dodd-Frank Act in July 2010. Certain aspects of the Dodd-Frank Act will have an impact on us including the combination of our primary regulator, the OTS, with the OCC, the imposition of consolidated holding company capital requirements, and the changes to deposit insurance assessments.

In March 2010, the Company and the Bank were determined to be in troubled condition by the OTS, which has imposed limitations on various aspects of our operations, including among others, limitations on our growth and ability to pay dividends and on our ability to use brokered deposits to fund our operations. The Company and the Bank agreed to the issuance of cease and desist orders to them by the OTS effective September 09, 2010, which we refer to collectively herein as the C&D. The C&D requires, among other things, that the Company and the Bank take remedial actions to improve the Bank s loan underwriting and internal asset review procedures, to reduce the amount of its non-performing assets and to improve other aspects of the Bank s business, as well as the Company s management of its business and the oversight of the Company s business by the Board. The C&D requires the Bank to attain, and thereafter maintain, a Tier 1 (Core) Capital to Adjusted Total Assets ratio of at least 8% and a Total Risk-Based Capital to Risk-Weighted Assets ratio of at least 12%, both of which ratios are greater than the respective 6% and 10% levels for such ratios that are generally required under OTS regulations.

In response to the C&D, we substantially reduced our loan origination efforts, suspended our church lending and ran off maturing brokered deposits, including deposits obtained through the CDARS reciprocal referral system, beginning in the second quarter of 2010. As a result, total assets, primarily our loan portfolio, and total deposits decreased during the year ended December 31, 2010. We are also pursing a Recapitalization Program that is intended to increase our common equity capital base and greatly reduce our reliance on senior capital securities and borrowings at our holding company level, but which will result in very substantial dilution to our existing senior and common equity holders. See Capital Resources below.

Net earnings increased for the year ended December 31, 2010, compared to the year ended December 31, 2009. This increase was due to a substantial decrease in provision for loan losses, an increase in net interest income and an increase in non-interest income, partially offset by increases in income tax expense and non-interest expense.

Analysis of Net Interest Income

Net interest income is the difference between income on interest-earning assets and the expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them. The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are

Table of Contents

daily average balances. The yields set forth below include the effect of deferred loan fees, and discounts and premiums that are amortized or accreted to interest income or expense. We do not accrue interest on loans on nonaccrual status, however, the balance of these loans is included in the total average balance, which has the effect of reducing average loan yields.

	For the Year Ended December 31,								
	2010			2009			2008		
(Dollars in Thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets									
Interest-earning assets:									
Interest-earning deposits	$ 4,224	$ 10	0.24%	$ 8,051	$ 83	1.03%	$ 3,718	$ 73	1.96%
Federal Funds sold and other short-term investments	20,968	23	0.11%	1,281	2	0.16%	3,032	37	1.22%
Investment securities	1,000	50	5.00%	1,000	50	5.00%	1,079	55	5.10%
Residential mortgage-backed securities	25,761	914	3.55%	26,795	1,158	4.32%	29,109	1,371	4.71%
Loans receivable (1)(2)	462,800	28,821	6.23%	429,040	27,366	6.38%	339,166	23,744	7.00%
FHLB stock	4,336	19	0.44%	4,140	9	0.22%	5,086	204	4.01%
Total interest-earning assets	519,089	$ 29,837	5.75%	470,307	$ 28,668	6.10%	381,190	$ 25,484	6.69%
Non-interest-earning assets	4,424			9,325			9,278		
Total assets	$ 523,513			$ 479,632			$ 390,468		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Money market deposits	$ 27,701	$ 182	0.66%	$ 33,719	$ 530	1.57%	$ 29,035	$ 705	2.43%
Passbook deposits	37,574	163	0.43%	37,763	311	0.82%	39,378	547	1.39%
NOW and other demand deposits	47,077	104	0.22%	64,967	763	1.17%	39,853	303	0.76%
Certificate accounts	274,641	5,461	1.99%	221,863	5,318	2.40%	156,228	5,624	3.60%
Total deposits	386,993	5,910	1.53%	358,312	6,922	1.93%	264,494	7,179	2.71%
FHLB advances	87,897	2,930	3.33%	76,433	2,830	3.70%	89,404	3,566	3.99%
Junior subordinated debentures and other borrowings	10,231	433	4.23%	6,385	236	3.70%	7,192	421	5.85%
Total interest-bearing liabilities	485,121	$ 9,273	1.91%	441,130	$ 9,988	2.26%	361,090	$ 11,166	3.09%
Non-interest-bearing liabilities	5,631			5,328			4,954		
Stockholders Equity	32,761			33,174			24,424		
Total liabilities and stockholders equity	$ 523,513			$ 479,632			$ 390,468		
Net interest rate spread (3)		$ 20,564	3.84%		$ 18,680	3.84%		$ 14,318	3.60%
Net interest rate margin (4)			3.96%			3.97%			3.76%

Ratio of interest-earning assets to interest-bearing liabilities	107.00%	106.61%	105.57%
Return on average assets	0.37%	(1.35%)	0.59%
Return on average equity	5.85%	(19.47%)	9.42%
Average equity to average assets ratio	6.26%	6.92%	6.26%
Dividend payout ratio (5)	N/A	N/A	16.90%

(1) Amount is net of deferred loan fees, loan discounts, and loans in process, and includes loans held for sale.
(2) Amount excludes interest on non-performing loans.
(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(4) Net interest rate margin represents net interest income as a percentage of average interest-earning assets.
(5) Percentage is calculated based on dividends on common stocks divided by net earnings (loss) less dividends and accretion on preferred stocks.

Table of Contents

Changes in our net interest income are a function of changes in both rates and volumes of interest-earning assets and interest-bearing liabilities. The following table sets forth information regarding changes in our interest income and expense for the years indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) the total change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year ended December 31, 2010 Compared to Year ended December 31, 2009 Increase (Decrease) in Net Interest Income			Year ended December 31, 2009 Compared to Year ended December 31, 2008 Increase (Decrease) in Net Interest Income		
	Due to Volume	Due to Rate	Total	Due to Volume	Due to Rate	Total
			(In thousands)			
Interest-earning assets:						
Interest-earning deposits	$ (28)	$ (45)	$ (73)	$ 56	$ (46)	$ 10
Federal funds sold and other short term investments	22	(1)	21	(14)	(21)	(35)
Investment securities, net	-	-	-	(4)	(1)	(5)
Mortgage backed securities, net	(43)	(201)	(244)	(105)	(108)	(213)
Loans receivable, net	2,501	(1,046)	1,455	5,873	(2,251)	3,622
FHLB stock	-	10	10	(32)	(163)	(195)
Total interest-earning assets	2,452	(1,283)	1,169	5,774	(2,590)	3,184
Interest-bearing liabilities:						
Money market deposits	(82)	(266)	(348)	159	(334)	(175)
Passbook deposits	(2)	(146)	(148)	(22)	(214)	(236)
NOW and other demand deposits	(167)	(492)	(659)	247	213	460
Certificate accounts	1,139	(996)	143	1,839	(2,145)	(306)
FHLB advances	399	(299)	100	(493)	(243)	(736)
Junior subordinated debentures	-	(38)	(38)	-	(138)	(138)
Other borrowings	235	-	235	(48)	1	(47)
Total interest-bearing liabilities	1,522	(2,237)	(715)	1,682	(2,860)	(1,178)
Change in net interest income	$ 930	$ 954	$ 1,884	$ 4,092	$ 270	$ 4,362

Comparison of Operating Results for the Years Ended December 31, 2010 and 2009

General

Our most significant source of income is net interest income, which is the difference between our interest income and our interest expense. Generally, interest income is generated from our loans and investments (interest-earning assets) and interest expense is generated from deposits and borrowings (interest-bearing liabilities). Our results of operations are also affected by our provision for loan losses, non-interest income generated from service charges and fees on loan and deposit accounts, gain or loss on the sale of loans and securities, non-interest expenses and income taxes.

Net Earnings (Loss)

We recorded net earnings of $1.9 million, or $0.44 per diluted common share, for the year ended December 31, 2010, compared to a net loss of ($6.5) million, or ($4.14) per diluted common share, for the year ended December 31, 2009. The improvement in net earnings reflected higher net interest income before loan loss provisions, substantially reduced provisions for losses, and higher non-interest income.

Table of Contents

Net Interest Income

Net interest income before provision for loan losses for the year ended December 31, 2010 was $20.6 million, which represented an increase of $1.9 million, or 10.09%, from the year ended December 31, 2009. The increase was primarily attributable to an increase of $48.8 million in average interest-earning assets, combined with one basis point decrease in net interest margin from 3.97% in 2009 to 3.96% in 2010.

Interest Income

Interest income for 2010 increased $1.2 million, or 4.08%, from a year ago. The increase was due primarily to higher levels of interest-earning assets which resulted in a $2.5 million increase in interest income. The increase in average interest-earning assets was offset by a 35 basis point decrease in the yield on average interest-earning assets, which reduced interest income by $1.3 million.

Our net loan portfolio accounted for a substantial portion of the increase in our average interest-earning assets. In 2010, average loans outstanding increased by $33.8 million, or 7.87%. At the same time, the yield earned on loans decreased by 15 basis points to 6.23%, which was primarily due to higher level of nonaccrual loans.

Interest Expense

Interest expense for 2010 decreased $715 thousand, or 7.16%, from a year ago. The decrease was primarily due to a 35 basis point decline in the cost of average interest-bearing liabilities from 2.26% for 2009 to 1.91% for 2010, which resulted in a decrease in interest expense of $2.2 million. The cost of average interest-bearing liabilities declined in 2010 as we lowered the interest rates paid on deposit accounts and as maturing certificates of deposits were renewed or replaced by new certificates of deposit at lower rates. Partially offsetting the impact of the decline in the cost of average interest-bearing liabilities was an increase in the average balance of interest-bearing liabilities of $44.0 million. Interest-bearing liabilities averaged $485.1 million in 2010 compared to $441.1 million in 2009. The increase in these average balances resulted in a $1.5 million increase in interest expense.

Provision for Loan Losses

The provision for loan losses represents the charge against current earnings that we determine as the amount needed to maintain an allowance for loan losses that should be sufficient to absorb loan losses inherent in the Bank s loan portfolio. We determine the size of the provision for each year based upon many factors, including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies, non-performing loans, our assessment of loan portfolio quality, value of collateral, general economic factors and feedback from regulatory examinations.

For the year 2010, the provision for loan losses totaled $4.5 million, down $15.1 million, from a year ago. The amount of the provision recorded in 2010 primarily reflected increases in classified and nonperforming loans and a reduction in our gross loan portfolio. The provision for loan losses of $19.6 million for 2009 was reflective of deteriorating asset quality and the results of a regulatory examination in the early part of 2010.

We performed an impairment analysis for all non-performing and restructured loans, and established specific loss allocations for impaired loans of $6.0 million at December 31, 2010. The specific loss allocations at December 31, 2010 were mainly related to eleven commercial real estate loans, three one to four-family residential loans and two multi-family residential loans totaling $10.1 million. The loans are non-performing and the recent valuation of the underlying collateral reflected a decrease in values, and the Bank accordingly allocated $2.0 million of specific loss allocations. The Bank also recorded a $2.4 million specific loss allocation

Table of Contents

on two commercial loans, an unsecured consumer loan, and one loan secured by a deposit account, totaling $6.0 million. Additionally, the Bank recorded $1.6 million specific loss allocation for impairment related to $15.8 million of loans that were modified in troubled debt restructurings.

Net loan charge-offs during 2010 were $4.5 million, or 0.97% of average loans, compared to $2.7 million, or 0.64% of average loans, during 2009. Charge-offs during 2010 included $2.0 million of charge-offs on twelve one to four-family loans, $209 thousand of charge-offs on nine commercial real estate loans, $21 thousand of charge-off on two multi-family loans, $1.7 million of charge-off on a commercial loan and $504 thousand of charge-offs on four unsecured consumer loans. Of the $4.5 million of loan charge-offs during 2010, $2.9 million were specifically reserved for at year-end 2009 and $1.6 million were specifically reserved for in 2010.

Non-Interest Income

For the year 2010, non-interest income totaled $2.7 million, up $699 thousand, or 35.68%, from a year ago. The increase was primarily due to $1.5 million in grants received from the U.S. Department of the Treasury s Community Development Financial Institutions (CDFI) Fund in 2010, compared to $591 thousand in grants received in 2009, which were included with other non-interest income on the income statement. This increase was partially offset by $116 thousand higher net losses on sale of loans and REO and $47 thousand lower service charges for loan related fees and retail banking fees.

Non-Interest Expense

For the year 2010, non-interest expense totaled $15.5 million, up $3.4 million, or 27.95%, from a year ago. The increase was mostly due to higher provision for losses on loans held for sale and REO. Also contributing to higher non-interest expense in 2010 were higher professional services expense, primarily legal, audit, tax and consulting fees, and higher FDIC insurance premium expense. These expenses increased primarily as a result of the C&D issued to us by the OTS. Compensation and benefits expense also increased primarily due to the lower amount of salaries that were deferred on loan originations as a result of decreased loan origination volume in 2010. Other expense also increased primarily reflecting higher appraisal expenses related to delinquent loans and REO.

Income Taxes

Income tax expense totaled $1.3 million for 2010 compared to income tax benefit of ($4.6) million for 2009. The effective tax rates for the periods ended December 31, 2010 and 2009 were 41.19% and (41.84%), respectively. 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. See Note 1 Summary of Significant Accounting Principles and Note 12 Income Taxes of the Notes to Consolidated Financial Statements for a further discussion of income taxes and a reconciliation of income tax at the federal statutory tax rate to actual tax expense (benefit).

The Company s net deferred tax assets totaled $5.4 million at December 31, 2010 compared to $5.0 million at December 31, 2009. The Company has recorded a valuation allowance of $507 thousand and $206 thousand at year-end 2010 and 2009 related to deferred state taxes as it does not anticipate having future state taxable income sufficient to fully utilize the net deferred state tax asset. No valuation allowance has been recorded against the net deferred federal tax asset as the Company expects to have sufficient future income to utilize the net deferred federal tax assets.

Table of Contents

Comparison of Financial Condition at December 31, 2010 and 2009

Total Assets

Total assets were $483.9 million at December 31, 2010, which represented a decrease of $37.1 million, or 7.12%, from December 31, 2009. During 2010, net loans (including loans held for sale) decreased by $41.6 million, or 9.16%, and securities decreased by $8.0 million, or 25.56%. Other assets decreased $2.9 million, or 39.89%, primarily reflecting a $998 thousand decrease in prepaid FDIC insurance, a $430 thousand write-off of two overdraft deposit DDA accounts and a $288 thousand decrease in accounts receivable. These decreases in assets were partially offset by a $14.5 million increase in cash and cash equivalents, a $964 thousand increase in REO and a $383 thousand increase in net deferred income tax assets.

The C&D issued to us by the OTS effective September 9, 2010, among other restrictions, limits the increase in the Bank s total assets during any quarter to an amount equal to the net interest credited on deposit liabilities during the prior quarter without the prior written notice to and receipt of notice of non-objection from the OTS Regional Director.

Loans Receivable

During 2010, we restrained loan growth to comply with the C&D restriction on asset growth and suspension of church lending. Our gross loan portfolio decreased to $402.6 million at December 31, 2010 from $453.1 million at December 31, 2009. The $50.5 million decrease in our loan portfolio primarily consisted of a $17.8 million decrease in our multi-family residential real estate loan portfolio, a $12.9 million decrease in our commercial real estate loan portfolio, an $11.0 million decrease in commercial loans and an $8.0 million decrease in our one-to-four family residential real estate loan portfolio.

Loan originations, including purchases, for the year ended December 31, 2010 totaled $17.5 million compared to $154.7 million for the year ended December 31, 2009. Loan repayments, including loan sales, totaled $39.3 million for the year ended December 31, 2010, compared to $37.8 million for the comparable period in 2009. Loans transferred to REO during 2010 totaled $5.0 million, compared to $2.1 million during 2009. In addition, during 2010 we transferred $24.0 million of loans to loans receivable held for sale, compared to $-0- during 2009.

Deposits

Deposits totaled $348.4 million at December 31, 2010, down $37.0 million, or 9.61%, from year-end 2009. During 2010, core deposits (NOW, demand, money market and passbook accounts) decreased by $6.8 million and certificates of deposit (CDs) decreased by $30.2 million. Included in the $30.2 million decrease in CDs was an $82.8 million reduction in our brokered deposits, which was partially offset by a $52.6 million increase in our regular CDs. Brokered deposits represented 5% of total deposits at December 31, 2010 compared to 26.19% at December 31, 2009.

The C&D issued to us by the OTS effective September 9, 2010, among other restrictions, prohibits the Bank from increasing the amount of its brokered deposits beyond the amount of interest credited without prior notice to and receipt of notice of non-objection from the OTS Regional Director. To comply with the C&D restriction on brokered deposits and asset growth, we lowered our deposit rates and ran off maturing brokered deposits, including CDARS, beginning in the second quarter of 2010.

Borrowings

At December 31, 2010, borrowings consisted of advances from the FHLB of $87.0 million, junior subordinated debentures of $6.0 million and other borrowings of $5.0 million. Since the end of 2009, FHLB borrowings have decreased by $4.6 million, or 5.02%, as our assets decreased in 2010. At December 31, 2010 and 2009, FHLB advances were 17.98% and 17.58%, respectively, of total assets, and the weighted average cost of advances at those dates was 3.24% and 3.23%, respectively. In February 2010, the Company borrowed an aggregate of $5.0 million under its $5.0 million line of credit with another financial institution and invested all of the proceeds in the equity capital of the Bank. The C&D issued to us by the OTS effective September 9, 2010, among other restrictions, prohibits the Bank to incur, issue, renew, repurchase, make payments on or increase any debt or redeem any capital stock without prior notice to and receipt of written notice of non-objection from the OTS Regional Director.

Stockholders Equity

Stockholders equity was $32.9 million, or 6.79% of the Company s total assets, at December 31, 2010. At December 31, 2010, the Bank s Total Risk-Based Capital ratio was 13.05%, its Tier 1 Risk-Based Capital ratio was 11.76%, and its Core Capital and Tangible Capital ratios were 8.82%. The Company is currently pursuing a Recapitalization Plan to increase capital and reduce debt and senior securities, including a sale of additional common stock and exchanges of preferred stock for common stock at a discount to the liquidation amount, to further strengthen the Company s capital ratios, and position the Bank for future growth.

Stockholders equity increased by $1.4 million, or 4.27%, to $32.9 million at December 31, 2010 from $31.5 million at December 31, 2009. This increase in stockholders equity was primarily due to net earnings of $1.9 million for the year which was partially offset by $787 thousand of dividends.

Capital Resources

Our principal subsidiary, Broadway Federal, must comply with capital standards established by the OTS in the conduct of its business and failure to comply with such capital requirements may result in significant limitations on its business or other sanctions. We are not currently subject to separate holding company capital requirements, but Dodd-Frank Act recently enacted by Congress will, among other things, impose specific capital requirements on us as a savings and loan holding company as well. The current regulatory capital requirements and possible consequences of failure to maintain compliance are described in Part I, Item 1 Business-Regulation and in Note 15 Regulatory Capital Matters and Capital Purchase Program of the Notes to Consolidated Financial Statements.

On November 14, 2008, the Company issued 9,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series D, having a liquidation preference of $1,000 per share, together with a ten-year warrant to purchase 183,175 shares of Company common stock at $7.37 per share, to the U.S. Treasury for gross proceeds of $9.0 million. The sale of the Senior Preferred Stock was made pursuant to the U.S. Treasury s TARP Capital Purchase Program.

On December 8, 2009, the Company issued 6,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series E, having a liquidation preference of $1,000 per share, to the U.S. Treasury for gross proceeds of $6.0 million. The sale of the Senior Preferred Stock was made pursuant to the U.S. Treasury s TARP Capital Purchase Program.

We are pursuing our comprehensive Recapitalization Plan. To date, we have obtained, subject to documentation and certain terms and conditions:

The consent of the U.S. Treasury to exchange our Series D and E Fixed Rate Cumulative Perpetual Preferred Stock for common stock at a discount of 50% of the liquidation amount, plus an undiscounted exchange of the accumulated but unpaid dividends on such preferred stock for common stock;

An agreement in principle with the holders of both the Series A and Series B Perpetual Preferred Stock to exchange their holdings for common stock at a discount of 50% of the liquidation amount;

An agreement in principle with our senior bank lender to exchange a portion of our senior line of credit, which is currently in default, for common stock at 100% of the face amount to be exchanged and to forgive the accrued interest on the line of credit to the date of the exchange.

The conditions to each of the above exchanges include requirements that the holder of our outstanding Series C Noncumulative Perpetual Convertible Preferred Stock concurrently exchange such preferred stock for our common stock on similar terms and that we concurrently complete private placements or other sales of our common stock aggregating $5 million or more in gross proceeds. Based on the agreements in principle that we have reached, we anticipate that these transactions will result in the issuance of approximately 7.0 million new shares of our common stock, which would constitute approximately 80% of the pro forma outstanding shares of our common stock.

Liquidity

The objective of liquidity management is to ensure that we have the continuing ability to fund operations and meet other obligations on a timely and cost-effective basis. Our 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. Primary uses of funds include withdrawal of and interest payments on deposits, originations of loans, purchases of mortgage-backed and other investment securities, and payment of operating expenses.

Net cash inflows from operating activities totaled $23.6 million and $7.5 million during 2010 and 2009, respectively. Net cash inflows from operating activities for 2010 were primarily attributable to payments of interest on loans and proceeds from sales of loans held for sale during 2010.

Net cash inflows (outflows) from investing activities totaled $28.2 million and ($125.6) million during 2010 and 2009, respectively. Net cash inflows from investing activities for 2010 were attributable primarily to principal repayments on loans and residential mortgage-backed securities.

Net cash inflows (outflows) from financing activities totaled ($37.3) million and $118.1 million during 2010 and 2009, respectively. Net cash outflows from financing activities for 2010 were attributable primarily to the net decreases in deposits and FHLB advances.

When we have more funds than required for our reserve requirements or short-term liquidity needs, we sell federal funds to other financial institutions. Conversely, when we have fewer funds than required, we may borrow funds from the FHLB. We currently are approved by the FHLB to borrow up to $100.0 million to the extent we provide qualifying collateral and hold sufficient FHLB stock. That approved limit and collateral requirement would have permitted the Bank, as of year-end 2010, to borrow an additional $13.0 million.

At times we maintain a portion of our liquid assets in interest-bearing cash deposits with other banks, in overnight federal funds sold to other banks, and in investment securities available-for-sale that are not pledged. Our liquid assets, consisting of cash and cash equivalents and investment securities available-for-sale that are not pledged, were $32.5 million at December 31, 2010 compared to $22.4 million at December 31, 2009. Cash and cash equivalents were $22.0 million at December 31, 2010, compared to $7.4 million at December 31, 2009.

On February 28, 2010, we borrowed an aggregate of $5.0 million under our $5.0 million line of credit with another financial institution and most of the proceeds have been invested in the equity capital of the Bank. Borrowings under the line of credit are secured by the Company s assets. The full amount of this borrowing became due and payable on July 31, 2010. This senior line of credit has not been repaid and we are now in default under the line of credit agreement. We do not have sufficient cash available to repay the borrowing at this time and would require approval of the OTS to make any payment on this senior line of credit or to obtain a dividend from the Bank for such purpose. On April 7, 2011, the Lender agreed to forbear from exercising its

Table of Contents

rights (other than increasing the interest rate by the default rate margin) until January 1, 2012 subject to certain conditions described in Note 10 of the Notes to Consolidated Financial Statements. Further information regarding this borrowing is included in Note 10 Other Borrowings and Management s Capital Plan of the Notes to Consolidated Financial Statements.

Off-Balance-Sheet Arrangements and Contractual Obligations

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business primarily in order to meet the financing needs of our customers. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are either not recorded in the consolidated financial statements or are recorded in amounts that differ from the notional amounts. Such instruments primarily include lending commitments and lease commitments as described below.

Lending commitments include commitments to originate loans and to fund lines of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate creditworthiness on a case-by-case basis. Our maximum exposure to credit risk is represented by the contractual amount of the instruments.

In addition to our lending commitments, we have contractual obligations related to operating lease commitments. Operating lease commitments are obligations under various non-cancelable operating leases on buildings and land used for office space and banking purposes.

The following table details our contractual obligations at December 31, 2010.

	Less than one year	More than one year to three years	More than three years to five tears	More than five tears	Total
			(Dollars in thousands)		
Certificates of deposit	$ 130,539	$ 93,805	$ 9,730	$ 4,109	$ 238,183
FHLB advances	9,000	16,500	38,500	23,000	87,000
Junior subordinated debentures	-	-	6,000	-	6,000
Other borrowings	5,000	-	-	-	5,000
Commitments to originate loans	382	-	-	-	382
Commitments to fund unused lines of credit	5,420	2,685	298	407	8,810
Operating lease obligations	209	238	-	-	447
Total contractual obligations	$ 150,550	$ 113,228	$ 54,528	$ 27,516	$ 345,822

Impact of Inflation and Changing Prices

Our consolidated financial statements including notes have been prepared in accordance with GAAP which require the measurement of financial position and operating results primarily in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in increased costs of our operations. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. We consider the following to be critical accounting policies:

Allowance for Loan Losses

The determination of the allowance for loan losses is considered critical due to the high degree of judgment involved, the subjectivity of the underlying assumptions used, and the potential for changes in the economic environment that could result in material changes in the amount of the allowance for loan losses considered necessary. The allowance is evaluated on a regular basis by management and the Board of Directors and is based on a periodic review of the collectability of the loans in light of historical experience, the nature and size of the loan portfolio, adverse situations that may affect borrowers ability to repay, the estimated value of any underlying collateral, prevailing economic conditions and feedback from regulatory examinations. See Item 1, Business Asset Quality Allowance for Loan Losses for a full discussion of the allowance for loan losses.

Real Estate Owned (REO)

REO includes property acquired through foreclosure or deed in lieu of foreclosure and is recorded at the lower of cost or fair value, less estimated costs to sell, at the time of acquisition. The excess, if any, of the loan balance over the fair value of the property at the time of transfer from loans to REO is charged to the allowance for loan losses. Subsequent to the transfer to REO, if the fair value of the property less estimated selling costs is less than the carrying value of the property, the deficiency is charged to income and a valuation allowance is established. Operating costs after acquisition are expensed. Due to changing market conditions, there are inherent uncertainties in the assumptions with respect to the estimated fair value of REO. Therefore, the amount ultimately realized may differ from the amounts reflected in the accompanying consolidated financial statements.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax asset will not be realized. See Note 12 Income Taxes of the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

This discussion has highlighted those accounting policies that management considers critical; however, all accounting policies are important, and therefore you are encouraged to review each of the policies included in Note 1 Summary of Significant Accounting Principles of the Notes to Consolidated Financial Statements beginning at page F-6 to gain a better understanding of how our financial performance is measured and reported.

Impact of Recent Accounting Standards

In July 2010, the FASB amended existing disclosure guidance to require an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The guidance requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. See Note 4 Loans of the Notes to Consolidated Financial Statements for the required disclosures at December 31, 2010.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements of Broadway Financial Corporation and Subsidiaries.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As of December 31, 2010, 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 December 31, 2010.

Management s annual report on internal control over financial reporting

The management of Broadway Financial Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) under the Exchange Act. This system, which management has chosen to base on the framework set forth in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and which is effected by the Company s board of directors, management and other personnel, is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

With the participation of the Company s Chief Executive Officer and Chief Financial Officer, management has conducted an evaluation of the effectiveness of the Company s system of internal control over financial reporting. Based on this evaluation, management determined that the Company s system of internal control over financial reporting was effective as of December 31, 2010.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this annual report.

Changes in internal control over financial reporting

There were no significant changes in the Company s internal control over financial reporting identified in connection with the evaluation of internal control over financial reporting that occurred during the fourth quarter of 2010 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

/s/ Paul C. Hudson	/s/ Samuel Sarpong
Paul C. Hudson	Samuel Sarpong
Chief Executive Officer	*Chief Financial Officer*
Los Angeles, CA	Los Angeles, CA
April 14, 2011	April 14, 2011

ITEM 9B. OTHER INFORMATION

None

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

The Board of Directors (the Board) of the Company is divided into three classes, with each class containing approximately one-third of the Board and with only one class being elected each year. The directors are elected by the shareholders of the Company for staggered terms of three years each, or until their respective successors are elected and qualified. One class of directors, consisting of Messrs. A. Odell Maddox, Daniel A. Medina, and Virgil Roberts, has a term of office expiring at the 2011 Annual Meeting of Stockholders. Messrs. Maddox, Medina, and Roberts are expected to be nominated for election to serve for additional terms as directors at the Company s 2011 Annual Meeting of Stockholders.

The following table sets forth the names and information regarding the persons who are currently members of the Board:

Name	Age at December 31, 2010	Director Since	Term Expires	Positions Currently Held with the Company and the Bank
NOMINEES:				
A. Odell Maddox	64	1986	2011	Director
Daniel A. Medina	53	1997	2011	Director
Virgil Roberts	63	2002	2011	Director
CONTINUING DIRECTORS:				
Paul C. Hudson	62	1985	2012	Chairman of the Board and Chief Executive Officer
Kellogg Chan	71	1993	2012	Director
Robert C. Davidson, Jr.	65	2003	2013	Director
Javier León	45	2007	2013	Director
Elrick Williams	63	2007	2013	Director

The following is a brief description of the business experience of the nominees and continuing directors for at least the past five years and their respective directorships, if any, with other public companies that are subject to the reporting requirements of the Exchange Act.

Nominees

A. Odell Maddox is Manager of Maddox Co., a real estate property management and sales company, and has served in that capacity since 1986. Mr. Maddox has worked in property management, real estate brokerage and investment businesses for over 35 years. Mr. Maddox has extensive experience in real estate in Los Angeles, as well as significant experience in real estate lending and loan workouts. He has extensive entrepreneurial experience developing and managing small and medium-sized businesses. Mr. Maddox has a long history with and knowledge of the Company and the communities and markets in which the Company operates.

Daniel A. Medina is Managing Director of Capital Knowledge, LLC, a consulting firm that provides financial advisory services. He has been with Capital Knowledge, LLC and its predecessor since April 1, 2000. Mr. Medina has extensive experience in analyzing and valuing financial institutions and assessing their strengths and weaknesses. He has extensive knowledge of the capital markets and mergers and acquisitions, specifically within the financial services industry.

Virgil Roberts has been Managing Partner of Bobbitt & Roberts, a law firm representing clients in the entertainment industry, since 1996. He currently serves on the Board of Directors of Community Build, Inc., Claremont Graduate School, Families in Schools, the Alliance for College Ready Public Schools, Southern California Public Radio, the Alliance of Artists and Record Companies, and the Bridgespan Group, a management and consulting firm for large philanthropy companies with offices in Boston, San Francisco and New York. Mr. Roberts qualifications to serve on the Board include his extensive legal and business experience and community leadership. Mr. Roberts serves on a number of local community boards and provides leadership to local community groups. Mr. Roberts serves as the Lead Director and chair of the Board s Nominating Committee. Mr. Roberts brings leadership, management and regulatory experience to the Board.

Continuing Directors

Paul C. Hudson is the Chief Executive Officer and Chairman of the Company and the Bank. Mr. Hudson joined the Bank in 1981, was elected to the Board in 1985, and served in various positions prior to becoming Chairman and Chief Executive Officer in 2007. Mr. Hudson is an inactive member of California and Washington D.C. Bar Associations. He currently serves on several nonprofit boards, including the board of the California Housing Finance Agency and Abode Communities. Mr. Hudson brings to his position almost thirty years of executive management experience with the Company and over 25 years as its leader. He is responsible for developing the Company from a relatively small mutual thrift institution into one of the largest African American thrift institutions in the United States. He has an extensive knowledge of the history of the Company and the markets in which it operates. He is well versed in the regulatory and other issues facing the Company and the banking industry.

Kellogg Chan has served as President of Asia Capital Group, Ltd., a biotechnology holding company since 2001. He has been a member of the Board since 1993. He served as the Chairman and Chief Executive Officer of Universal Bank, f.s.b from 1994 to 1995 and President and Chief Executive Officer of East-West Bank from 1976 to 1992. Mr. Chan has extensive experience in the thrift industry covering a wide variety of economic and interest rate cycles. He has served in executive management positions in thrift institutions and has experienced a diversity of corporate cultures. His extensive executive management experience includes, but is not limited to, strategic planning and its implementation and the development, implementation and evaluation of internal control structures, particularly in the thrift industry.

Robert C. Davidson, Jr. retired in 2007 from his position as Chairman/Chief Executive Officer of Surface Protection Industries, a company he formed in 1978 and one of the largest African American owned manufacturing companies in California. He is a member of the Boards of Directors of Jacobs Engineering Group, Inc. (a publicly traded engineering and design firm), Morehouse College, Cedars Sinai Medical Center, Art Center College of Design located in Pasadena, California, the South Coast Air Quality Management District Brain Tumor and Air Pollution Foundation, and the University of Chicago Graduate School of Business Advisory Council. Mr. Davidson has extensive entrepreneurial experience in developing and managing small and medium size businesses. He has hands-on experience in marketing and sales, human resources and strategic planning and implementation. He has a long history with an extensive knowledge of the Company and of the markets and communities in which the Company operates.

Javier León is the Managing Director of Andell Sports Group, which oversees the sports and related assets of Andell Holdings and has served in that capacity since 2008. Mr. Leon oversees the business and operations of the Chicago Fire, a professional soccer team, on behalf of its owner. He is involved in strategic planning and marketing, as well as the development of Hispanic community and public relations strategies and programs. Prior to joining Andell, Mr. Leon served as the Chief Executive Officer for Chivas USA Enterprises in Los Angeles from 2004 to 2007. Mr. León was a managing director in investment banking for Merrill Lynch, Deutsche Bank, and ING-Barings from 1992 to 2004. He received a bachelors degree from Claremont McKenna College and a Masters of International Management from the University of California at San Diego. Mr. Leon has extensive experience in managing, planning and operating businesses. He has expertise in developing, reviewing and maintaining systems of internal controls and in financial reporting and analysis. He has prior experience in the capital markets. We believe Mr. Leon s experience in the areas of strategic planning and marketing, including marketing to Hispanic communities, makes him an excellent candidate for the Board.

Table of Contents

Elrick Williams has been Chairman of Williams Group Holdings LLC, a privately held investment firm with offices in Chicago and Los Angeles, since the firm was established in 2006. Prior to his current position, Mr. Williams founded Allston Trading LLC in 2003 and retired as its Chief Executive Officer and Chairman in late 2008. Allston Trading LLC is a firm that specializes in algorithmic electronic trading of stocks, Treasury bonds, currencies, futures and options. Mr. Williams was employed as a trader from 1981 to 2003 by various securities trading companies. Mr. Williams has extensive experience in planning for, managing and operating a financial services business. He also has significant experience in and knowledge of the equity markets. We believe Mr. Williams many years of hands-on business experience combined with his proven leadership skills make him an excellent candidate for the Board.

Executive Officers

The following table sets forth information with respect to executive officers of the Company and the Bank who are not directors. Officers of the Company and the Bank serve at the discretion of, and are elected annually by the respective Boards of Directors.

Name	Age[(1)]	Principal Occupation during the Past Five Years
Wayne-Kent A. Bradshaw	63	President / Chief Operating Officer of the Company and the Bank since February 2009. Regional President and National Manager for Community and External Affairs at Washington Mutual Bank from 2004 to 2009.
Samuel Sarpong	50	Senior Vice President / Chief Financial Officer of the Company and the Bank since 2005. First Vice President / Chief Compliance Officer and Internal Audit Director of the Bank from 2004 to 2005.
Wilbur A. McKesson Jr.	57	Senior Vice President / Chief Loan Officer of the Company since 2007. Vice President for Affordable Housing of Option One Mortgage Corporation from 2002 to 2007.

(1) As of December 31, 2010.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company s executive officers and directors, and persons who own more than ten percent (10%) of the Company s common stock, to report to the SEC their initial ownership of the Company s common stock and any subsequent changes in that ownership. Specific due dates for these reports have been established by the SEC and any late filings or failures to file are to be disclosed. Officers, directors and greater than ten percent (10%) stockholders are required by SEC rules to furnish the Company with copies of all forms that they file pursuant to Section 16(a) of the Exchange Act.

Based solely on our review of copies of such forms received, the Company believes that, during the last fiscal year, all filing requirements under Section 16(a) of the Exchange Act applicable to its officers, directors and 10% stockholders were timely met.

Code of Ethics

The Board has adopted a Code of Ethics (the Code) for the Company s directors and executive officers. Our directors and executive officers are expected to adhere at all times to the Code. Stockholders may obtain a copy of the Code, free of charge, upon written request to: Broadway Financial Corporation, 4800 Wilshire Boulevard, Los Angeles, California 90010, Attention: Daniele Johnson.

Table of Contents

Audit Committee

The Company has a separately-designated standing Audit Committee. The Audit Committee consists of Messrs Maddox (Chairman), Medina, and Williams. The Audit Committee is responsible for oversight of the internal audit function for the Company, assessment of accounting and internal control policies and monitoring of regulatory compliance. This committee is also responsible for oversight of the Company s independent auditors. The members of the Audit Committee are independent directors as defined under the Nasdaq Stock Market listing standards. In addition, Messrs Medina and Williams meet the definition of audit committee financial expert, as defined by the SEC.

ITEM 11. EXECUTIVE COMPENSATION
Compensation Tables

The following table sets forth a summary of certain information concerning the compensation awarded to, earned by or paid to our Chief Executive Officer and our three most highly compensated executive officers for services rendered in all capacities during 2010, 2009 and 2008.

Summary Compensation Table

Name and Principal Position	Year	Salary[(1)]	Bonus[(2)]	Option Awards[(3)]	Nonqualified Deferred Compensation Earnings[(4)]	All Other Compen-sation[(5)]	Total ($)
Paul C. Hudson	2010	$ 300,000			$ 141,761	$ 37,633	$ 479,394
	2009	$ 286,667			$ 133,526	$ 34,549	$ 454,742
Chief Executive Officer	2008	$ 210,000	$ 81,418		$ 126,007	$ 29,864	$ 447,289
Wayne-Kent A. Bradshaw[(6)]	2010	$ 210,000				$ 33,725	$ 243,725
	2009	$ 178,750		$ 224,250		$ 26,232	$ 429,232
Chief Operating Officer	2008						
Samuel Sarpong	2010	$ 172,601				$ 21,457	$ 194,058
	2009	$ 161,551				$ 19,332	$ 180,883
Chief Financial Officer	2008	$ 150,000	$ 50,067	$ 49,350		$ 19,205	$ 268,622
Wilbur McKesson	2010	$ 165,191				$ 25,866	$ 191,057
	2009	$ 159,811				$ 28,545	$ 188,356
Chief Lending Officer	2008	$ 155,625	$ 51,944	$ 131,600		$ 22,692	$ 361,861

(1) Includes amounts deferred and contributed to the 401(k) Plan by the named executive officer.
(2) The amounts shown represent performance-based bonuses earned in 2008 but paid in 2009. No performance-based bonuses were earned in 2009 and 2010.
(3) Represents the grant date fair value of option awards granted under the Company s Long-Term Incentive Plans. Option awards vest 20% per year from the date of the grant and are fully vested in year five. The maximum term of each option is ten years. For the assumptions used in calculating the grant date fair value under ASC 718, see Note 14 of the Notes to Consolidated Financial Statements.
(4) The Bank has a Salary Continuation Agreement with Mr. Hudson. The amount listed reflects the change in the actuarial present value of the accumulated benefits under this agreement. The income from a bank owned life insurance policy reduces the expense related to the Salary Continuation Agreement. The other Named Executive Officers did not participate in the Bank s Non-Qualified Deferred Compensation Plan during 2010, 2009 and 2008.
(5) Includes amounts paid by the Company to the 401(k) account of the executive officer, and estimated allocations under the ESOP. Also includes perquisites and other benefits consisting of automobile and phone allowances, and premiums paid for medical, dental and group term life insurance policies.
(6) Wayne-Kent A. Bradshaw commenced his employment as the Bank s President and Chief Operating Officer in February 2009.

Table of Contents

The following table sets forth information concerning outstanding equity awards held by each named executive officer as of December 31, 2010.

Outstanding Equity Awards at December 31, 2010

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (Exercisable)(1)	Number of Securities Underlying Unexercised Options (Unexercisable)(2)	Option Exercise Price(3)	Option Expiration Date(4)	Number of Shares or Units of Stock That Have Not Vested(5)	Market Value of Shares or Units of Stock That Have Not Vested(6)
Paul C. Hudson	29,718		$ 6.68	07/25/12		
Wayne K. Bradshaw	15,000	60,000	$ 4.98	03/18/19		
Samuel Sarpong	10,000		$ 13.11	04/21/14		
	12,000	3,000	$ 10.25	05/24/16	600	$ 1,458
	6,000	9,000	$ 5.95	10/22/18		
Wilbur McKesson	16,000	24,000	$ 5.95	10/22/18		

(1) The stock options shown are immediately exercisable.
(2) Options vest in equal annual installments on each anniversary date over a period of five years commencing on the date of the grant.
(3) Based upon the fair market value of a share of Company common stock on the date of grant.
(4) Terms of outstanding stock options are for a period of ten years from the date the option is granted.
(5) Shares vest in equal annual installments on each anniversary date over a period of five years commencing on the date of the grant.
(6) Based upon a fair market value of $2.43 per share for the Company common stock as of December 31, 2010.

Salary Continuation Agreement

Under the 2006 Salary Continuation Agreement, upon termination of employment after Mr. Paul Hudson reaches age 65, he will receive an annual benefit of $100,000, divided into 12 equal monthly payments, for 15 years. The normal retirement age is defined as age 65. The agreement includes provisions for early termination, disability, termination for cause, death and change in control. The present value of the accumulated benefit is the accrual balance as of December 31, 2010. The accrual balance is determined using a discount rate of 6%.

Director Compensation

The following table summarizes the compensation paid to non-employee directors for the year ended December 31, 2010.

Name	Fees Earned or Paid in Cash(1)	Option Awards(2)	All Other Compensation(3)	Total
Kellogg Chan	$ 22,000	$ 4,825		$ 26,825
Robert C. Davidson	$ 22,000	$ 4,825	$ 5,485	$ 32,310
Javier León	$ 14,000	$ 4,825		$ 18,825
A. Odell Maddox	$ 20,500	$ 4,825	$ 4,616	$ 29,941
Daniel Medina	$ 22,000	$ 4,825		$ 26,825
Virgil Roberts	$ 21,500	$ 4,825		$ 26,325
Elrick Williams	$ 20,500	$ 4,825		$ 25,325

(1) Includes payments of annual retainer fees, fees paid to chairmen of Board committees, and meeting attendance fees.

Table of Contents

(2) Represents the grant date fair value of option awards granted under the Company s Long-Term Incentive Plan. Option awards vest immediately and the maximum term of each option is ten years. For the assumptions used in calculating the grant date fair value under ASC 718, see Note 14 of the Notes to the Consolidated Financial Statements.
(3) Includes premiums paid for medical, dental and group term life insurance.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information, as of March 31, 2011, concerning the shares of the Company s Common Stock owned by each person known to the Company to be a beneficial owner of more than 5% of the Company s Common Stock, each director, each executive officer named in the Summary Compensation Table, and all directors and executive officers as a group.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Beneficial Owners:		
Cathay General Bancorp 777 North Broadway Los Angeles, CA 90012	215,000(1)	12.33%
First Opportunity Fund, Inc. 2344 Spruce Street, Suite A Boulder, CO 80302	96,980(2)	5.56%
Directors and Executive Officers:		
Paul C. Hudson	90,317(3)	5.18%
Kellogg Chan	43,139(4)	2.47%
Robert C. Davidson, Jr.	10,713(5)(6)	0.61%
Javier León	3,125(4)	0.18%
A. Odell Maddox	19,019(4)	1.09%
Daniel A. Medina	10,041(4)(7)	0.58%
Virgil Roberts	14,632(8)(9)	0.84%
Elrick Williams	192,642(4)(10)	11.05%
Wayne-Kent A. Bradshaw	30,000(11)	1.72%
Samuel Sarpong	31,085(12)	1.78%
Wilbur McKesson	16,159(13)	0.93%
All directors and executive officers as a group (11 persons)	460,872	26.43%

(1) Information based upon Schedule 13G, filed on May 26, 2006 with the SEC by Cathay General Bancorp.
(2) Information based upon Schedule 13G/A, filed on February 17, 2011 with the SEC by First Opportunity Fund, Inc. (formerly First Financial Fund, Inc.)
(3) Includes 16,763 allocated shares under the Employee Stock Ownership Plan (ESOP), and 29,718 shares subject to options granted under the Company s Long Term Incentive Plan (the LTIP), which options are all currently exercisable.
(4) Includes 3,125 shares subject to options granted under the Company s 2008 Long Term Incentive Plan (the 2008 LTIP), which options are all currently exercisable.
(5) Includes 5,356 shares held jointly with spouse with whom voting and investment power are shared.
(6) Includes 1,428 shares subject to options granted under the Stock Option Plan for Outside Directors (the SOPOD), and 3,125 shares subject to options granted under the 2008 LTIP, which options are all currently exercisable.
(7) Includes 6,110 shares held jointly with spouse with whom voting and investment power are shared.

(8) Includes 5,806 shares held jointly with spouse with whom voting and investment power are shared.

(9) Includes 1,784 shares subject to options granted under the SOPOD, and 3,125 shares subject to options granted under the 2008 LTIP, which options are all currently exercisable.
(10) Information based upon Schedule 13G/A, filed on February 11, 2010 with the SEC by Elrick Williams. Mr. Williams is a majority owner of Williams Group Holdings LLC which owns 189,517 shares of the Company s Common Stock.
(11) Includes 30,000 shares subject to options granted under the 2008 LTIP, which options are all currently exercisable.
(12) Includes 685 allocated shares under the ESOP, and 28,000 shares subject to options granted under the LTIP, which options are all currently exercisable.
(13) Includes 159 allocated shares under the ESOP, and 16,000 shares subject to options granted under the LTIP, which options are all currently exercisable.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Transactions

The Company s current loan policy provides that all loans made by the Company or its subsidiaries to its directors and executive officers must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and must not involve more than the normal risk of collectibility or present other unfavorable features.

On September 30, 1999, the Bank made a loan of $550,000 to Maddox & Stabler LLC. Mr. A. Odell Maddox is a director of the Company and the Bank. The loan is secured by a 24-unit multi-family property located in Los Angeles, California. The terms of the 30-year loan include an initial interest rate of 8% fixed for the first five years and a variable rate thereafter equal to 2.50% over the one-year Treasury Bill rate. Since inception, payments on the loan have been made as agreed. As of March 31, 2011, the outstanding balance of the loan was $449,648.

Mr. Elrick Williams is a director of both the Company and the Bank and holds a non-controlling interest in Williams Group Holdings (WGH). On September 26, 2006, the Bank made a loan of $3,250,000 to Gemini Basketball (Gemini). In October 2007, WGH made a minority investment in Gemini. In October of 2008, the Bank made an additional $750,000 loan to Gemini. The outstanding balance on the loan is $4,000,000. In January 2009, WGH acquired a majority interest in Gemini. The loan had an initial rate of 6.50% for one year and a variable rate thereafter equal to 2.50% over the Wall Street Journal Prime Rate. Since inception, payments on the loan have been made as agreed.

Director Independence

We have adopted standards for director independence pursuant to Nasdaq Stock Market listing standards. The Board considered relationships, transactions and/or arrangements with each of its directors and determined that all seven of the Company s non-employee directors are independent under applicable Nasdaq Stock Market listing standards and SEC rules.

Table of Contents

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Before the Company s independent accountants are engaged to render non-audit services for the Company or the Bank, the Audit Committee approves each engagement. The Audit Committee also preapproved all of the audit and audit-related services provided by Crowe Horwath LLP for the year ended December 31, 2010 and 2009. The following table sets forth the aggregate fees billed to us by Crowe Horwath LLP for the years indicated.

	2010	2009
	(In thousands)	
Audit fees[1]	$ 160	$ 228
Audit-related fees[2]	12	24
All other fees		1[3]
Total fees	$ 172	$ 253

(1) Aggregate fees billed for professional services rendered for the audit of the Company s consolidated annual financial statements included in the Company s Annual Report on Form 10-K and for the reviews of the Company s consolidated financial statements included in the Company s Quarterly Reports on Form 10-Q.

(2) Consultation fees billed for professional services rendered for the 2010 and 2009 Independent Accountant s Report on Management s Assertion About Compliance with Minimum Servicing Standards (USAP) and for professional services rendered for consultation regarding management s assessment of the adequacy of internal control over financial reporting for 2009 and for providing a consent for a Form S-8 filing for 2009.

(3) Fees billed for professional services rendered for consultation regarding CEO bonus limitations for TARP recipients.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. See Index to Consolidated Financial Statements.

2. Financial Statement Schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes included under Item 8, Financial Statements and Supplementary Data.

(b) List of Exhibits

Exhibit Number*	
2.1	Plan of Conversion, including Certificate of Incorporation and Bylaws of the Registrant and Federal Stock Charter and Bylaws of Broadway Federal (Exhibit 2.1 to Amendment No. 2 to Registration Statement on Form S-1, No. 33-96814, filed by Registrant on November 13, 1995)
3.1	Certificate of Incorporation of Registrant (contained in Exhibit 2.1)
3.2	Bylaws of Registrant (contained in Exhibit 2.1)
4.1	Form of Common Stock Certificate (Exhibit 4.1 to Registration Statement on Form S-1, No. 33-96814, filed by the Registrant on September 12, 1995)
4.2	Form of Series A Preferred Stock Certificate (Exhibit 4.2 to Amendment No. 1 to Registration Statement on Form S-1, No. 33-96814, filed by the Registrant on November 6, 1995)

Table of Contents

Exhibit Number*	
4.3	Form of Certificate of Designation for Series A Preferred Stock (contained in Exhibit 2.1)
4.4	Form of Series B Preferred Stock Certificate (Exhibit 4.4 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2003)
4.5	Form of Certificate of Designation for Series B Preferred Stock (Exhibit 4.5 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2003)
4.6	Form of Series C Preferred Stock Certificate (Exhibit 4.6 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2006)
4.7	Form of Certificate of Designation for Series C Preferred Stock (Exhibit 4.7 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2006)
4.8	Form of Series D Preferred Stock Certificate (Exhibit 4.8 to Form 8-K filed by the Registrant on November 19, 2008)
4.9	Form of Certificate of Designation for Fixed Rate Cumulative Perpetual Preferred Stock Series D (Exhibit 3.3 to Form 8-K filed by the Registrant on November 19, 2008)
4.10	Warrant to Purchase Common Stock of Broadway Financial Corporation (Exhibit 4.9 to Form 8-K filed by the Registrant on November 19, 2008)
4.11	Form of Series E Preferred Stock Certificate (Exhibit 4.2 to Form 8-K filed by the Registrant on December 9, 2009)
4.12	Form of Certificate of Designation for Fixed Rate Cumulative Perpetual Preferred Stock Series E (Exhibit 4.1 to Form 8-K filed by the Registrant on December 9, 2009)
10.1	Broadway Federal Bank Employee Stock Ownership Plan (Exhibit 4.1 to Registration Statement on Form S-1, No. 33-96814, filed by the Registrant on September 12, 1995)
10.2	ESOP Loan Commitment Letter and ESOP Loan and Security Agreement (Exhibit 4.1 to Registration Statement on Form S-1, No. 33-96814, filed by the Registrant on September 12, 1995)
10.3	Form of Severance Agreement among Broadway Financial Corporation, Broadway Federal and certain executive officers (Exhibit 10.7 to Amendment No. 2 to Registration Statement on Form S-1, No. 33-96814, filed by the Registrant on November 13, 1995)
10.4	Broadway Financial Corporation Recognition and Retention Plan for Outside Directors dated August 1, 1997, (Exhibit 10.4 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 1997)
10.5	Broadway Financial Corporation Performance Equity Program for Officers and Directors, dated August 1, 1997, (Exhibit 10.5 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 1997)
10.6	Broadway Financial Corporation Stock Option Plan for Outside Directors (filed by the Registrant as part of Form S-8, No. 333-17331, on December 5, 1996)
10.7	Broadway Financial Corporation Long Term Incentive Plan (filed by Registrant as part of Form S-8, No. 333-17331, on December 5, 1996)
10.8	Broadway Financial Corporation 2008 Long Term Incentive Plan (filed by Registrant as part of Form S-8, No. 333-163150, on November 17, 2009)
10.9	Stock Purchase Agreement Among Cathay General Bancorp, Broadway Financial Corporation and Broadway Federal Bank (Exhibit 10.9 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2004)
10.10	First Amendment to Stock Purchase Agreement Among Cathay General Bancorp, Broadway Financial Corporation and Broadway Federal Bank (Exhibit 10.10 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2004)

Exhibit Number*	
10.11	Second Amendment to Stock Purchase Agreement Among Cathay General Bancorp, Broadway Financial Corporation and Broadway Federal Bank (Exhibit 10.11 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2005)
10.12	Third Amendment to Stock Purchase Agreement Among Cathay General Bancorp, Broadway Financial Corporation and Broadway Federal Bank (Exhibit 10.12 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2005)
10.13	Preferred Stock Purchase Agreement Between Broadway Financial Corporation and National Community Investment Fund (Exhibit 10.1 to Form 8-K filed by the Registrant on April 6, 2006)
10.14	Deferred Compensation Plan (Exhibit 10.14 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2006)
10.15	Salary Continuation Agreement Between Broadway Federal Bank and Chief Executive Officer Paul C. Hudson (Exhibit 10.15 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2006)
10.16	Securities Purchase Agreement Between Broadway Financial Corporation and United States Department of the Treasury (Exhibit 10.16 to Form 8-K filed by the Registrant on November 19, 2008)
10.17	Letter Agreement, dated December 4, 2009, which includes the Securities Purchase Agreement Between Broadway Financial Corporation and United States Department of the Treasury (Exhibit 10.1 to Form 8-K filed by the Registrant on December 9, 2009)
10.18	Business Loan Agreement between Broadway Financial Corporation and Nara Bank, dated July 31, 2009 (Exhibit 10.18 to Form 10-K filed by the Registrant for the fiscal year ended December 31, 2009)
21.1	List of Subsidiaries (Exhibit 21.1 to Form 10-KSB filed by the Registrant for the fiscal year ended December 31, 2007)
23.1	Consent of Crowe Horwath LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Order to Cease and Desist, issued by Office of Thrift Supervision to Broadway Financial Corporation, Order No.: WN-10-026, effective September 9, 2010 (Exhibit 99.1 to Form 8-K filed by the Registrant on September 16, 2010)
99.2	Order to Cease and Desist, issued by Office of Thrift Supervision to Broadway Federal Bank, f.s.b., Order No.: WN-10-025, effective September 9, 2010 (Exhibit 99.2 to Form 8-K filed by the Registrant on September 16, 2010)
99.3	Certification of Chief Executive Officer pursuant to Interim Final Rule - TARP Standards for Compensation and Corporate Governance at 31 CFR Part 30
99.4	Certification of Chief Financial Officer pursuant to Interim Final Rule - TARP Standards for Compensation and Corporate Governance at 31 CFR Part 30

* Exhibits followed by a parenthetical reference are incorporated by reference herein from the document described therein.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BROADWAY FINANCIAL CORPORATION

By: /s/ Paul C. Hudson
Paul C. Hudson

Chief Executive Officer

Date: April 14, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Paul C. Hudson Paul C. Hudson Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	Date: April 14, 2011
/s/ Samuel Sarpong Samuel Sarpong Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	Date: April 14, 2011
/s/ Kellogg Chan Kellogg Chan Director	Date: April 13, 2011
/s/ Robert C. Davidson, Jr. Robert C. Davidson, Jr. Director	Date: April 13, 2011
/s/ Javier Leon Javier Leon Director	Date: April 13, 2011
/s/ Albert Odell Maddox Albert Odell Maddox Director	Date: April 13, 2011
/s/ Daniel A. Medina Daniel A. Medina	Date: April 13, 2011

Director

/s/ Virgil P. Roberts Virgil P. Roberts Director	Date: April 13, 2011
/s/ Elrick Williams Elrick Williams Director	Date: April 13, 2011

53

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Broadway Financial Corporation:

We have audited the accompanying consolidated balance sheets of Broadway Financial Corporation and subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of operations and comprehensive earnings (loss), changes in stockholders equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Broadway Financial Corporation and subsidiaries as of December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP

Costa Mesa, California

April 14, 2011

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
	(In thousands, except share and per share)	
Assets		
Cash and cash equivalents	$ 21,978	$ 7,440
Securities available-for-sale, at fair value	10,524	14,961
Securities held-to-maturity (fair value of $13,261 at December 31, 2010 and $16,838 at December 31, 2009)	12,737	16,285
Loans receivable held for sale, net	29,411	20,940
Loans receivable, net of allowance of $20,458 and $20,460	382,616	432,640
Accrued interest receivable	2,216	2,419
Federal Home Loan Bank (FHLB) stock, at cost	4,089	4,305
Office properties and equipment, net	5,094	5,363
Real estate owned	3,036	2,072
Bank owned life insurance	2,522	2,418
Deferred income taxes	5,369	4,986
Other assets	4,338	7,217
Total assets	$ 483,930	$ 521,046
Liabilities and stockholders equity		
Deposits	$ 348,445	$ 385,488
Federal Home Loan Bank advances	87,000	91,600
Junior subordinated debentures	6,000	6,000
Other borrowings	5,000	-
Advance payments by borrowers for taxes and insurance	272	372
Other liabilities	4,353	6,071
Total liabilities	451,070	489,531
Commitments and Contingencies (Note 16)		
Stockholders Equity:		
Senior preferred cumulative and non-voting stock, $1,000 par value, authorized, issued and outstanding 9,000 shares of Series D at December 31, 2010 and 2009; liquidation preference of $9,000 at December 31, 2010 and 2009	8,963	8,963
Senior preferred cumulative and non-voting stock, $1,000 par value, authorized, issued and outstanding 6,000 shares of Series E at December 31, 2010 and 2009; liquidation preference of $6,000 at December 31, 2009 and 2009	5,974	5,974
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 December 31, 2010 and 2009; liquidation preference of $552 for Series A, $1,000 for Series B and $1,000 for Series C at December 31, 2010 and 2009	2	2
Preferred stock discount	(1,380)	(1,756)
Common stock, $.01 par value, authorized 3,000,000 shares; issued 2,013,942 shares at December 31, 2010 and 2009; outstanding 1,743,965 shares at December 31, 2010 and 1,743,365 shares at December 31, 2009	20	20
Additional paid-in capital	14,395	14,273
Retained earnings-substantially restricted	8,074	7,322
Accumulated other comprehensive income, net of taxes of $176 at December 31, 2010 and $118 at December 31, 2009	263	176

Treasury stock-at cost, 269,977 shares at December 31, 2010 and 270,577 shares at December 31, 2009	(3,451)	(3,459)
Total stockholders equity	32,860	31,515
Total liabilities and stockholders equity	$ 483,930	$ 521,046

See accompanying notes to consolidated financial statements.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Earnings (Loss)

	Year Ended December 31,	
	2010	2009
	(In thousands, except per share)	
Interest and fees on loans receivable	$ 28,821	$ 27,366
Interest on mortgage-backed securities	914	1,158
Interest on investment securities	50	50
Other interest income	52	94
Total interest income	29,837	28,668
Interest on deposits	5,910	6,922
Interest on borrowings	3,363	3,066
Total interest expense	9,273	9,988
Net interest income before provision for loan losses	20,564	18,680
Provision for loan losses	4,465	19,629
Net interest income after provision for loan losses	16,099	(949)
Non-interest income:		
Service charges	1,175	1,222
Net gains (losses) on sales of loans	(22)	6
Net losses on sales of REO	(88)	-
Other	1,593	731
Total non-interest income	2,658	1,959
Non-interest expense:		
Compensation and benefits	6,657	6,118
Occupancy expense, net	1,429	1,393
Information services	807	813
Professional services	1,167	630
Provision for losses on loans held for sale	1,188	734
Provision for losses on REO	1,102	-
FDIC insurance	1,043	819
Office services and supplies	548	572
Other	1,560	1,036
Total non-interest expense	15,501	12,115
Earnings (loss) before income taxes	3,256	(11,105)
Income tax expense (benefit)	1,341	(4,646)
Net earnings (loss)	$ 1,915	$ (6,459)
Other comprehensive income, net of tax:		
Unrealized gain on securities available-for-sale	$ 145	$ 240
Income tax effect	(58)	(96)

Other comprehensive income, net of tax	87	144
Comprehensive earnings (loss)	$ 2,002	$ (6,315)
Net earnings (loss)	$ 1,915	$ (6,459)
Dividends and discount accretion on preferred stock	(1,145)	(749)
Earnings (loss) available to common stockholders	$ 770	$ (7,208)
Earnings (loss) per common share-basic	$ 0.44	$ (4.14)
Earnings (loss) per common share-diluted	$ 0.44	$ (4.14)

See accompanying notes to consolidated financial statements.

F-3

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity

(In thousands, except per share)

	Preferred Stock	Preferred Stock Discount	Common Stock	Common Stock Warrant	Additional Paid-in Capital	Retained Earnings (Substantially Restricted)	Accumulated Other Comprehensive Income, Net	Treasury Stock	Total Stockholders Equity
Balance at December 31, 2008	$ 8,965	$ (702)	$ 20	$ 723	$ 12,240	$ 14,878	$ 32	$ (3,467)	$ 32,689
Net loss for the year ended December 31, 2009	-	-	-	-	-	(6,459)	-	-	(6,459)
Unrealized gain on securities available-for-sale, net of tax	-	-	-	-	-	-	144	-	144
Preferred stock issued Series E	5,974	(1,200)	-	-	1,200	-	-	-	5,974
Common stock warrant cancellation	-	-	-	(723)	723	-	-	-	-
Treasury stock used for vested stock awards	-	-	-	-	(2)	-	-	8	6
Cash dividends declared ($0.20 per common share)	-	-	-	-	-	(348)	-	-	(348)
Cash dividends declared ($0.50 per preferred share of Series A, $0.50 per preferred share of Series B and $0.65 per preferred share of Series C)	-	-	-	-	-	(128)	-	-	(128)
Cash dividends paid and accrued ($50 per senior preferred share of Series D)	-	-	-	-	-	(450)	-	-	(450)
Cash dividends accrued ($4.17 per senior preferred share of Series E)	-	-	-	-	-	(25)	-	-	(25)
Stock-based compensation expense	-	-	-	-	112	-	-	-	112
Accretion of preferred stock discount	-	146	-	-	-	(146)	-	-	-
Balance, at December 31, 2009	14,939	(1,756)	20	-	14,273	7,322	176	(3,459)	31,515
Net earnings for the year ended December 31, 2010	-	-	-	-	-	1,915	-	-	1,915
Unrealized gain on securities available-for-sale, net of tax	-	-	-	-	-	-	87	-	87
Treasury stock used for vested stock awards	-	-	-	-	(2)	-	-	8	6
Cash dividends declared ($0.01 per common share)	-	-	-	-	-	(18)	-	-	(18)
Cash dividends declared ($0.125 per preferred share of Series A and Series B)	-	-	-	-	-	(19)	-	-	(19)
Cash dividends accrued ($50 per senior preferred share of Series D)	-	-	-	-	-	(450)	-	-	(450)
Cash dividends accrued ($50 per senior preferred share of Series E)	-	-	-	-	-	(300)	-	-	(300)
Stock-based compensation expense	-	-	-	-	124	-	-	-	124
Accretion of preferred stock discount	-	376	-	-	-	(376)	-	-	-
Balance, at December 31, 2010	$ 14,939	$ (1,380)	$ 20	$ -	$ 14,395	$ 8,074	$ 263	$ (3,451)	$ 32,860

See accompanying notes to consolidated financial statements.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2010	**2009**
	(In thousands)	
Cash flows from operating activities:		
Net earnings (loss)	$ 1,915	$ (6,459)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Provision for loan losses	4,465	19,629
Provision for losses on loans held for sale	1,188	734
Provision for losses on REO	1,102	-
Depreciation	425	440
Net amortization of premiums and discounts on loans purchased	(6)	(8)
Net amortization of net deferred loan origination (fees) costs	30	16
Net amortization of premiums on mortgage-backed securities	192	88
Stock-based compensation expense	124	112
Earnings on bank owned life insurance	(104)	(95)
Net losses on sales of REO	88	-
Net change in:		
Loans receivable held for sale, net	12,685	2,902
Accrued interest receivable	203	(124)
Other assets	2,879	(3,873)
Deferred income taxes	(441)	(5,551)
Other liabilities	(1,178)	(279)
Net cash provided by operating activities	23,567	7,532
Cash flows from investing activities:		
Available-for-sale securities:		
Maturities, prepayments and calls	4,400	1,347
Purchases	-	(11,910)
Held-to-maturity securities:		
Maturities, prepayments and calls	3,538	6,483
Net change in loans receivable	18,186	(121,076)
Proceeds from sale of REO	2,883	-
Investment in affordable housing limited partnership	(832)	-
Purchase of Federal Home Loan Bank stock	(231)	(207)
Proceeds from redemption of Federal Home Loan Bank stock	447	-
Additions to office properties and equipment	(156)	(268)
Net cash provided by (used in) investing activities	28,235	(125,631)
Cash flows from financing activities:		
Net change in deposits	(37,043)	95,571
Proceeds from Federal Home Loan Bank advances	3,500	23,600
Repayments on Federal Home Loan Bank advances	(8,100)	(6,000)
Net increase in other borrowings	5,000	-
Proceeds from issuance of preferred stock	-	5,974
Cash dividends paid	(527)	(951)
Reissuance of treasury stock	6	6
Net change in advance payments by borrowers for taxes and insurance	(100)	(137)

Net cash provided by (used in) financing activities	(37,264)	118,063
Net change in cash and cash equivalents	14,538	(36)
Beginning cash and cash equivalents	7,440	7,476
Ending cash and cash equivalents	$ 21,978	$ 7,440
Supplemental cash flow information:		
Interest paid	$ 9,216	$ 10,033
Income taxes paid	620	2,735
Supplemental non-cash disclosure:		
Transfers from loans receivable to loans receivable held for sale, net	$ 22,688	$ -
Transfers of loans receivable to REO	4,661	2,072
Transfers of loans receivable held for sale to REO	344	-

See accompanying notes to consolidated financial statements.

F-5

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

Note 1 Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

Broadway Financial Corporation (the Company) is a Delaware corporation primarily engaged in the savings and loan business through its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (the Bank). The Bank 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 commercial real estate located in Southern California. At December 31, 2010, the Bank operated five retail-banking offices and two loan production offices in Southern California. The Bank is subject to significant competition from other financial institutions, and is also subject to regulation by certain federal agencies and undergoes periodic examinations by those regulatory authorities.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Broadway Federal Bank, f.s.b. and Broadway Service Corporation. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. generally accepted accounting principles), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance and provision for loan losses, impaired loans, the fair value of loans held for sale, the classification of investment securities, the fair value of real estate owned, deferred tax asset valuation allowance, disallowed deferred tax assets for regulatory capital, and fair values of investment securities and other financial instruments are particularly subject to change.

Cash Flows

Cash and cash equivalents include cash, deposits with other financial institutions under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, accrued interest receivable, other assets, deferred income taxes, other liabilities, and advance payments by borrowers for taxes and insurance.

Securities

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held-to-maturity or trading are classified as available-for-sale. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost, and the intent and ability of management to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer s financial condition.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing rights. Gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the related loan sold. When loans held for sale are sold, existing deferred loan fees or costs are an adjustment of the gain or loss on sale.

Servicing Rights

Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in net gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions.

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with servicing fee income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Mortgage servicing rights assets totaled $487 thousand and $450 thousand at December 31, 2010 and 2009 and were included in other assets on the consolidated balance sheets,

Servicing fee income, which is reported on the consolidated statements of operations and comprehensive earnings as service charges is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. Servicing fees totaled $68 thousand and $101 thousand for the years ended December 31, 2010 and 2009. Late fees and ancillary fees related to loan servicing are not material.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of allowance for loan losses, loans in process, deferred loan fees and costs and unamortized premiums and discounts. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs are deferred, and recognized in income using the level-yield method over the contractual life of the loans, adjusted for prepayments.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectibility of the principal and/or interest to be in question, as well as when required by regulatory requirements. Loans to a customer whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days or more past due.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk

Most of the Company s business activity, excluding loans made to churches throughout the country, is with customers located within Southern California. Therefore, the Company s exposure to credit risk is significantly affected by changes in the economy in the Southern California area.

Loans Purchased

The Bank purchases or participates in loans originated by other institutions. The determination to purchase loans is based upon the Bank s investment needs and market opportunities. Subject to regulatory restrictions applicable to savings institutions, the Bank s current loan policies allow all loan types to be purchased. The determination to purchase specific loans or pools of loans is subject to the Bank s underwriting policies, which require consideration of the financial condition of the borrower and the appraised value of the property, among other factors. Premiums or discounts incurred upon the purchase of loans are recognized in income using the interest method over the estimated life of the loans, adjusted for prepayments.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDR) and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Impairment is measured on a loan by loan basis. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 18 months. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: one to four units, five or more units, commercial real estate, church, construction, commercial loans, and consumer loans. One to four units, five or more units, commercial real estate, church and construction loans each consist of a single class. Classes within our commercial loan portfolio consist of sports and other loans. Classes within our consumer loan portfolio consist of loan on savings and other loans.

One to Four Units Subject to adverse employment conditions in the local economy leading to increased default rate; decreased market values from oversupply in a geographic area; impact to borrowers ability to maintain payments in the event of incremental rate increases on adjustable rate mortgages.

Five or More Units Subject to adverse various market conditions that cause a decrease in market value or lease rates; change in personal funding sources for tenants; over supply of units in a specific region; a shift in population; reputational risks.

Commercial Real Estate Subject to adverse conditions in the local economy which may lead to reduced cash flows due to vacancies and reduced rental rates; decreases in the value of underlying collateral.

Church Subject to adverse economic and employment conditions leading to reduced cash flows from members donations and offerings; the stability, quality and popularity of church leadership.

Construction Subject to adverse conditions in the local economy which may lead to reduced demand for new commercial, multi-family or single-family buildings or reduced lease or sale opportunities once the building is complete.

Commercial Subject to industry conditions including decreases in product demand; intangible value of a professional sports franchise.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Consumer Subject to adverse employment conditions in the local economy which may lead to higher default rate.

Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded as real estate owned or repossessed assets at the lower of cost or fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Office Properties and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years. Leasehold improvements are amortized over the lease term or the estimated useful life of the asset whichever is shorter.

Federal Home Loan Bank (FHLB) stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on a key executive. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Loan Commitments and Related Financial Instruments

Financial instruments include off balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company s common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Retirement Plans

Employee 401(k) expense is the amount of matching contributions. Deferred compensation plan expense allocates the benefits over years of service. The cost of shares issued to the Employee Stock Ownership Plan (ESOP) but not yet allocated to participants is shown as a reduction of stockholders equity. Compensation

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce debt and accrued interest, if any.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Preferred Stock

The Series A and Series B preferred stock are non-convertible, non-cumulative, non-redeemable and non-voting perpetual preferred stock, with a par value of $0.01 per share and a liquidation preference of $10.00 per share. The Series C perpetual convertible preferred stock is non-voting and non-cumulative, with a par value of $0.01 per share and a liquidation preference of $13.00 per share. The Series C preferred stock is convertible at a conversion price of $13.00 per share, subject to certain anti-dilution adjustment provisions. The Series A, B and C preferred stocks have non-cumulative annual dividend rates of 5% of their liquidation preference.

The Series D and Series E preferred stock are cumulative and non-voting perpetual preferred stock with a liquidation preference of $1 thousand per share. Series D and E preferred stocks accrue cumulative dividends at the rate of 5% of their liquidation preference per year for the first five years after issuance and 9% per year thereafter.

Earnings Per Common Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Comprehensive Earnings (Loss)

Comprehensive earnings (loss) consists of net earnings (loss) and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available-for-sale, net of tax, which are also recognized as separate components of equity.

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.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

On September 18, 2008, a lawsuit was filed in the Superior Court of the State of California for Los Angeles County against the Bank by Daniel D. Holliday III, Attorney at Law, LLC (Holliday). This legal action arises from a dispute over the priority of the Bank s lien against a $2.6 million 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. 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 in the loan.

On April 17, 2009, the Bank filed a cross-complaint against Holliday (as an individual), Bachmann Springs Holdings, LLC (the developer), Thomas T. Bachmann (the principal of the developer), Robert Estareja (an agent of Bachmann Springs Holdings), Alan Roberson (the loan broker), Canyon Acquisitions, LLC (Canyon) (the broker who located the investors for the real estate project at issue and the entity funding Holliday s fees and costs), and Brent Borland (Canyon s principal), alleging causes of action for declaratory relief, money due on default on promissory note, judicial foreclosure on personal property, money lent, fraud, negligent misrepresentation, conspiracy, implied equitable indemnity, rescission based on fraud, and equitable subordination. The basis of the cross-complaint is that, among other things the cross-defendants conspired with each other to fraudulently induce the Bank to make the loan at issue. See Part I, Item 3, Legal Proceedings for further description.

A $1.5 million specific allocation of the allowance for loan losses has been established for the related $2.2 million loan as of December 31, 2010.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by a bank to its holding company or by the holding company to its stockholders. (See Note 15 for more specific disclosure.)

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no affect on prior year consolidated net earnings or stockholders equity.

Adoption of New Accounting Standards

In July 2010, the FASB amended existing disclosure guidance to require an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. The new and amended disclosure requirements focus on such areas as nonaccrual and past due financing

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

receivables, allowance for credit losses related to financing receivables, impaired loans, credit quality information and modifications. The guidance requires an entity to disaggregate new and existing disclosures based on how it develops its allowance for credit losses and how it manages credit exposures. For public entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. See Note 4 to these Consolidated Financial Statements for the required disclosures at December 31, 2010.

Note 2 Securities

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolios at December 31, 2010 and December 31, 2009 and the corresponding amounts of unrealized gains which are recognized in accumulated other comprehensive income, for available-for-sale investment securities, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2010:				
Available-for-sale				
Residential mortgage-backed	$ 10,085	$ 439	$ -	$ 10,524
Total available-for-sale	$ 10,085	$ 439	$ -	$ 10,524
Held-to-maturity				
Residential mortgage-backed	$ 11,737	$ 425	$ -	$ 12,162
U.S. Government and federal agency	1,000	99	-	1,099
Total held-to-maturity	$ 12,737	$ 524	$ -	$ 13,261

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2009:				
Available-for-sale				
Residential mortgage-backed	$ 14,667	$ 294	$ -	$ 14,961
Total available-for-sale	$ 14,667	$ 294	$ -	$ 14,961
Held-to-maturity				
Residential mortgage-backed	$ 15,285	$ 460	$ -	$ 15,745
U.S. Government and federal agency	1,000	93	-	1,093
Total held-to-maturity	$ 16,285	$ 553	$ -	$ 16,838

There were no securities with unrealized losses at December 31, 2010 and 2009.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The amortized cost and fair value of the investment securities portfolios are shown by contractual maturity at December 31, 2010. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily residential mortgage-backed securities, are shown separately.

	Available-for-Sale		Held-to-Maturity	
Maturity	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Within one year	$ -	$ -	$ -	$ -
One to five years	-	-	1,000	1,099
Five to ten years	-	-	-	-
Beyond ten years	-	-	-	-
Residential mortgage-backed	10,085	10,524	11,737	12,162
Total	$ 10,085	$ 10,524	$ 12,737	$ 13,261

Securities pledged at year-end 2010 and 2009 had a carrying amount of $12.7 million and $16.3 million and were pledged to secure public deposits and FHLB advances. At year-end 2010 and 2009, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders equity. There were no sales of securities during the years ended December 31, 2010 and 2009.

Note 3 Loans Receivable Held-for-Sale, Net

Loans receivable held-for-sale, net, consisted of multi-family and commercial real estate loans originated for sale and multi-family loans transferred from our loan portfolio. Non-performing loans receivable held-for-sale, included in loans receivable held-for-sale, net, totaled $5.1 million, net of charge-offs of $414 thousand and a $769 thousand valuation allowance, as of December 31, 2010 and totaled $5.7 million, net of a $994 thousand valuation allowance, at December 31, 2009. Restructured loans receivable held-for-sale that have complied with the terms of their restructured agreements for a satisfactory period of time and certain performing loans receivable held-for-sale with delinquency or other weaknesses totaled $8.0 million, net of a $512 thousand valuation allowance, as of December 31, 2010. A loan receivable held-for-sale secured by a church building, which had a carrying amount of $344 thousand, net of charge-off of $486 thousand, was transferred to REO during the third quarter of 2010.

We recorded lower of cost or market write-downs on non-performing loans receivable held-for-sale totaling $902 thousand for the year ended December 31, 2010, compared to $734 thousand for the same period in 2009. Additionally, during 2010, we established a valuation allowance of $286 thousand on some of our loans held for sale that are still considered performing loans.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Note 4 Loans

Loans at year-end were as follows:

	December 31, 2010	December 31, 2009
	(In thousands)	
Loans receivable, held for sale:		
Five or more units	$ 16,217	$ 4,385
Commercial real estate	5,067	6,600
Church	9,408	10,949
Valuation allowance for unrealized losses	(1,281)	(994)
Loans receivable, held for sale, net	$ 29,411	$ 20,940
Loans receivable, net:		
One to four units	$ 82,764	$ 90,747
Five or more units	128,534	146,291
Commercial real estate	72,770	82,276
Church	97,634	101,007
Construction	5,421	5,547
Commercial:		
Sports	5,768	10,106
Other	6,410	13,060
Consumer:		
Loan on savings	3,259	4,006
Other	29	104
Total gross loans receivable	402,589	453,144
Less:		
Loans in process	371	822
Net deferred loan fees (costs)	(889)	(817)
Unamortized discounts	33	39
Allowance for loan losses	20,458	20,460
Loans receivable, net	$ 382,616	$ 432,640

Activity in the allowance for loan losses was as follows:

	2010	2009
	(In thousands)	
Beginning balance	$ 20,460	$ 3,559
Provision for loan losses	4,465	19,629
Recoveries	5	-
Loans charged off	(4,472)	(2,728)

Ending balance	$ 20,458	$ 20,460

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by segment of loans and based on impairment method as of December 31, 2010:

	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
				(In thousands)				
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 423	$ 69	$ 935	$ 2,118	$ -	$ 942	$ 1,541	$ 6,028
Collectively evaluated for impairment	3,196	1,659	2,322	6,544	168	431	110	14,430
Total ending allowance balance	$ 3,619	$ 1,728	$ 3,257	$ 8,662	$ 168	$ 1,373	$ 1,651	$ 20,458
Loans:								
Loans individually evaluated for impairment	$ 9,962	$ 2,260	$ 13,206	$ 26,251	$ 320	$ 3,768	$ 2,265	$ 58,032
Loans collectively evaluated for impairment	72,802	126,274	59,564	71,383	5,101	8,410	1,023	344,557
Total ending loans balance	$ 82,764	$ 128,534	$ 72,770	$ 97,634	$ 5,421	$ 12,178	$ 3,288	$ 402,589

Impaired loans were as follows:

	December 31, 2010	December 31, 2009
	(In thousands)	
Year-end loans with no allocated allowance:		
Without charge-off	$ 20,767	$ 12,554
With charge-off	5,424	4,946
Year-end loans with allocated allowance:		
Without charge-off	29,532	32,142
With charge-off	2,309	-
Total	$ 58,032	$ 49,642
Amount of the allowance for loan losses allocated	$ 6,028	$ 5,374
Average of individually impaired loans during the year	$ 49,176	$ 19,960
Interest income recognized during impairment	2,241	2,445
Cash-basis interest income recognized	2,881	2,445

F-16

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010:

	Unpaid Principal Balance	Recorded Investment (In thousands)	Allowance for Loan Losses Allocated
With no related allowance recorded:			
One to four units	$ 7,953	$ 5,991	$ -
Five or more units	600	586	-
Commercial real estate	8,409	8,133	-
Church	11,782	11,161	-
Construction	320	320	-
With an allowance recorded:			
One to four units	4,129	3,971	423
Five or more units	1,674	1,674	69
Commercial real estate	5,072	5,073	935
Church	15,183	15,090	2,118
Commercial:			
Sports	4,000	3,768	942
Consumer:			
Loan on savings	2,249	2,249	1,525
Other	16	16	16
Total	$ 61,387	$ 58,032	$ 6,028

The following table presents the recorded investment in nonaccrual loans by class of loans:

	December 31, 2010	December 31, 2009
	(In thousands)	
Loans receivable, held for sale:		
Five or more units	$ 385	$ 1,013
Commercial real estate	-	422
Church	5,533	2,578
Loans receivable, net:		
One to four-units	6,227	4,756
Five or more units	1,865	631
Commercial real estate	10,321	5,639
Church	12,748	10,364
Construction	320	-
Commercial:		
Sports	3,768	4,000
Other	-	3,269
Consumer:		
Loan on Savings	2,249	2,249

Other	16	-
Total nonaccrual loans	$ 43,432	$ 34,921

F-17

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

There were no loans 90 days or more delinquent that were accruing interest as of December 31, 2010 and 2009.

The following table presents the aging of the recorded investment in past due loans, including loans held for sale, as of December 31, 2010 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Total Loans Not Past Due
			(In thousands)		
One to four units	$ 2,716	$ 71	$ 6,227	$ 9,014	$ 73,750
Five or more units	2,014	1,068	2,250	5,332	139,419
Commercial real estate	769	1,287	10,321	12,377	65,460
Church	12,914	5,230	18,281	36,425	70,617
Construction	898	-	320	1,218	4,203
Commercial:					
Sports	-	-	3,768	3,768	2,000
Other	325	-	-	325	6,085
Consumer:					
Loan on savings	-	-	2,249	2,249	1,010
Other	-	-	16	16	13
Total	$ 19,636	$ 7,656	$ 43,432	$ 70,724	$ 362,557

The Company has allocated $1.6 million and $543 thousand of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2010 and 2009. At December 31, 2010, loans classified as a TDR totaled $37.1 million, of which $14.6 million were included in nonaccrual loans and $22.5 million were on accrual status as the loans have complied with the terms of their restructured agreements for a satisfactory period of time. At December 31, 2009, loans classified as a TDR totaled $32.5 million, of which $11.0 million were included in nonaccrual loans and $21.5 million were on accrual status. As of December 31, 2010 and December 31, 2009, we did not have any outstanding commitments to extend additional funds to these borrowers.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed at least on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Loss
		(In thousands)			
One to four units	$ 71,846	$ 2,440	$ 8,478	$ -	$ -
Five or more units	118,490	6,412	3,632	-	-
Commercial real estate	46,692	5,281	20,797	-	-
Church	42,931	14,229	40,204	270	-
Construction	4,203	320	898	-	-
Commercial:					
Sports	-	2,000	3,768	-	-
Other	925	4,870	615	-	-
Consumer:					
Loan on savings	1,010	-	2,249	-	-
Other	13	-	-	-	16
Total	$ 286,110	$ 35,552	$ 80,641	$ 270	$ 16

Note 5 Real Estate Owned

Activity in the valuation allowance was as follows:

	2010	2009
	(In thousands)	
Beginning valuation allowance	$ -	$ -
Additions charged to expense	1,102	-
Direct write-downs	(1,048)	-
Ending valuation allowance	$ 54	$ -

Expenses related to foreclosed assets include:

	2010	2009
	(In thousands)	
Net loss (gain) on sales	$ 88	$ -
Provision for unrealized losses	1,102	-
Operating expenses	231	9
Total	$ 1,421	$ 9

Note 6 Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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 Consolidated Financial Statements (continued)

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 company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

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 secur