BROADWAY FINANCIAL CORP \DE\
Form 10-Q
December 21, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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

For transition period from to

Commission file number 000-27464

BROADWAY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**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)

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 x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company 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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 1,744,565 shares of the Company s Common Stock, par value $0.01 per share, were outstanding as of December 13, 2011.

Table of Contents

TABLE OF CONTENTS

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2011 (Unaudited)	December 31, 2010
	(Dollars in thousands, except per share amounts)	
Assets		
Cash	$ 13,735	$ 8,203
Federal funds sold	7,240	13,775
Cash and cash equivalents	20,975	21,978
Securities available for sale, at fair value	8,612	10,524
Securities held to maturity (fair value of $11,509 at September 30, 2011 and $13,261 at December 31, 2010)	11,000	12,737
Loans receivable held-for-sale, net	15,212	29,411
Loans receivable, net of allowance of $19,805 and $20,458	339,479	382,616
Accrued interest receivable	1,759	2,216
Federal Home Loan Bank (FHLB) stock, at cost	4,089	4,089
Office properties and equipment, net	4,821	5,094
Real estate owned (REO), net	5,385	3,036
Bank owned life insurance	2,588	2,522
Deferred tax assets	2,873	5,369
Other assets	5,444	4,338
Total assets	$ 422,237	$ 483,930
Liabilities and stockholders equity		
Deposits	$ 294,850	$ 348,445
Federal Home Loan Bank advances	87,000	87,000
Junior subordinated debentures	6,000	6,000
Other borrowings	5,000	5,000
Advance payments by borrowers for taxes and insurance	584	272
Other liabilities	5,768	4,353
Total liabilities	399,202	451,070
Stockholders Equity:		
Senior preferred, cumulative and non-voting stock, $.01 par value, authorized, issued and outstanding 9,000 shares of Series D at September 30, 2011 and December 31, 2010; liquidation preference of $9,619 at September 30, 2011 and $9,281 at December 31, 2010	8,963	8,963
Senior preferred, cumulative and non-voting stock, $.01 par value, authorized, issued and outstanding 6,000 shares of Series E at September 30, 2011 and December 31, 2010; liquidation preference of $6,412 at September 30, 2011 and $6,188 at December 31, 2010	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 September 30, 2011 and December 31, 2010; liquidation preference of $552 for Series A, $1,000 for Series B and $1,000 for Series C at September 30, 2011 and December 31, 2010	2	2
Preferred stock discount	(1,092)	(1,380)
Common stock, $.01 par value, authorized 8,000,000 shares at September 30, 2011 and December 31, 2010; issued 2,013,942 shares at September 30, 2011 and December 31, 2010; outstanding 1,744,565 shares at September 30, 2011 and 1,743,965 shares at	20	20

December 31, 2010		
Additional paid-in capital	14,460	14,395
Retained earnings (accumulated deficit)	(2,141)	8,074
Accumulated other comprehensive income, net of taxes of $206 at September 30, 2011 and $176 at December 31, 2010	293	263
Treasury stock-at cost, 269,377 shares at September 30, 2011 and 269,977 shares at December 31, 2010	(3,444)	(3,451)
Total stockholders equity	23,035	32,860
Total liabilities and stockholders equity	$ 422,237	$ 483,930

See accompanying notes to unaudited consolidated financial statements.

1

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Earnings (Loss)

(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(Dollars in thousands, except per share amounts)			
Interest and fees on loans receivable	$ 6,062	$ 7,231	$ 18,730	$ 22,186
Interest on mortgage backed and other securities	176	228	539	767
Other interest income	9	16	28	41
Total interest income	6,247	7,475	19,297	22,994
Interest on deposits	1,056	1,492	3,492	4,563
Interest on borrowings	859	865	2,699	2,511
Total interest expense	1,915	2,357	6,191	7,074
Net interest income before provision for loan losses	4,332	5,118	13,106	15,920
Provision for loan losses	3,814	1,740	8,488	2,623
Net interest income after provision for loan losses	518	3,378	4,618	13,297
Non-interest income:				
Service charges	176	275	533	677
Net gains (losses) on mortgage banking activities	(80)	13	(73)	(72)
Net losses on sale of REO	(7)	(53)	(56)	(88)
Other	25	788	90	962
Total non-interest income	114	1,023	494	1,479
Non-interest expense:				
Compensation and benefits	1,618	1,696	4,982	5,423
Occupancy expense, net	330	359	1,018	1,069
Information services	200	198	647	602
Professional services	284	214	744	810
Provision for losses on loans held-for-sale	702	556	728	1,103
Provision for losses on REO	1,251	669	2,033	780
FDIC insurance	144	233	781	695
Office services and supplies	135	147	417	424
Other	447	516	1,380	1,059
Total non-interest expense	5,111	4,588	12,730	11,965
Earnings (loss) before income taxes	(4,479)	(187)	(7,618)	2,811
Income tax expense (benefit)	3,055	(31)	1,767	1,133
Net earnings (loss)	$ (7,534)	$ (156)	$ (9,385)	$ 1,678
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities available for sale	$ (11)	$ (122)	$ 60	$ 135

Income tax effect	(2)	49	(30)	(54)
Other comprehensive income (loss), net of tax	(13)	(73)	30	81
Comprehensive earnings (loss)	$ (7,547)	$ (229)	$ (9,355)	$ 1,759
Net earnings (loss)	$ (7,534)	$ (156)	$ (9,385)	$ 1,678
Dividends and discount accretion on preferred stock	(264)	(282)	(830)	(863)
Earnings (loss) available to common shareholders	$ (7,798)	$ (438)	$ (10,215)	$ 815
Earnings (loss) per common share-basic	$ (4.47)	$ (0.25)	$ (5.86)	$ 0.47
Earnings (loss) per common share-diluted	$ (4.47)	$ (0.25)	$ (5.86)	$ 0.47
Dividends declared per share-common stock	$	$	$	$ 0.01

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2011	2010
	(Dollars in thousands)	
Cash flows from operating activities:		
Net earnings (loss)	$ (9,385)	$ 1,678
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Provision for loan losses	8,488	2,623
Provision for losses on loans receivable held-for-sale	728	1,103
Provision for losses on REO	2,033	780
Depreciation	306	320
Net amortization of deferred loan origination (fees) costs	3	6
Net amortization of premiums on mortgage-backed securities	78	148
Stock-based compensation expense	66	103
Earnings on bank owned life insurance	(66)	(82)
Net losses on sales of REO	56	88
Net losses on sales of loans	88	136
Net change in:		
Accrued interest receivable	457	(92)
Deferred tax assets	2,466	(131)
Other assets	(1,388)	2,220
Other liabilities	1,377	(320)
Net cash provided by operating activities	5,307	8,580
Cash flows from investing activities:		
Net change in loans receivable	24,413	7,234
Proceeds from sales and principal repayments of loans receivable held-for-sale	15,661	3,841
Available-for-sale securities:		
Maturities, prepayments and calls	1,898	3,586
Held-to-maturity securities:		
Maturities, prepayments and calls	1,733	2,766
Proceeds from sales of REO	3,712	2,455
Investment in affordable housing limited partnership	(417)	(359)
Redemption of FHLB stock		106
Additions to office properties and equipment	(33)	(115)
Net cash provided by investing activities	46,967	19,514
Cash flows from financing activities:		
Net change in deposits	(53,595)	(14,635)
Proceeds from FHLB advances	7,000	
Repayments on FHLB advances	(7,000)	(3,600)
Net increase in other borrowings		5,000
Cash dividends paid		(527)
Reissuance of treasury stock	6	6
Net change in advance payments by borrowers for taxes and insurance	312	379
Net cash used in financing activities	(53,277)	(13,377)

Net change in cash and cash equivalents		(1,003)		14,717
Cash and cash equivalents at beginning of period		21,978		7,440
Cash and cash equivalents at end of period	$	20,975	$	22,157
Supplemental disclosures of cash flow information:				
Cash paid for interest	$	5,661	$	7,145
Cash paid for income taxes	$	980	$	
Supplemental disclosures of non-cash investing and financing activities:				
Transfers of loans receivable to REO	$	7,691	$	4,404
Transfers of loans receivable held-for-sale to REO	$	266	$	344
Transfers of loans receivable from loans receivable, net to loans receivable held-for-sale	$	2,544	$	1,422

See accompanying notes to unaudited consolidated financial statements.

3

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

September 30, 2011

NOTE (1) Basis of Financial Statement Presentation

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

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for quarterly reports on Form 10-Q. These unaudited consolidated financial statements do not include all disclosures associated with the Company s consolidated annual financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2010 and, accordingly, should be read in conjunction with such audited consolidated financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Some items in the consolidated financial statements for the prior period were reclassified to conform to the current presentation.

NOTE (2) Recently Issued Accounting Pronouncements

In April 2011, the FASB issued ASU No. 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring, updated to amend previous guidance with respect to troubled debt restructurings. This updated guidance is designed to assist creditors with determining whether or not a restructuring constitutes a troubled debt restructuring. In particular, additional guidance has been added to help creditors determine whether a concession has been granted and whether a debtor is experiencing financial difficulties. Both of these conditions are required to be met for a restructuring to constitute a troubled debt restructuring. The amendments in the update are effective for the first interim period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Adoption of this guidance did not have a material effect on the Company s consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 addresses convergence between U.S. GAAP and International Financial Reporting Standards (IFRS) requirements for measurement of and disclosures about fair value. The amendments are not expected to have a significant impact on companies applying U.S. GAAP. Key provisions of the amendment include: a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity s net exposure to the group; an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. In addition, for items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. The amendments in ASU 2011-04 are effective during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The guidance in ASU 2011-05 does

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

September 30, 2011

not change the items which must be reported in other comprehensive income, how such items are measured, or when they must be reclassified to net income. The guidance in ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, and should be applied retrospectively. Early adoption is permitted. Since the provisions of ASU 2011-05 are presentation related only, the Company does not expect the adoption of ASU 2011-04 to have a material effect on its consolidated financial statements.

NOTE (3) Earnings Per Common Share

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

The following table shows how the Company computed basic and diluted earnings per common share for the three and nine months ended September 30, 2011 and 2010.

	For the three months ended September 30, 2011	For the three months ended September 30, 2010	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
	(Dollars in thousands, except per share)			
Basic				
Net earnings (loss)	$ (7,534)	$ (156)	$ (9,385)	$ 1,678
Less: Preferred stock dividends and accretion	(264)	(282)	(830)	(863)
Earnings (loss) available to common shareholders	$ (7,798)	$ (438)	$ (10,215)	$ 815
Weighted average common shares outstanding	1,744,565	1,743,965	1,744,251	1,743,649
Basic earnings (loss) per common share	$ (4.47)	$ (0.25)	$ (5.86)	$ 0.47
Diluted				
Net earnings (loss)	$ (7,534)	$ (156)	$ (9,385)	$ 1,678
Less: Preferred stock dividends and accretion	(264)	(282)	(830)	(863)
Earnings (loss) available to common shareholders	$ (7,798)	$ (438)	$ (10,215)	$ 815
Weighted average common shares outstanding	1,744,565	1,743,965	1,744,251	1,743,649
Add: dilutive effects of assumed exercises of stock options	N/A	N/A	N/A	1,319
Average shares and dilutive potential common shares	1,744,565	1,743,965	1,744,251	1,744,967
Diluted earnings (loss) per common share	$ (4.47)	$ (0.25)	$ (5.86)	$ 0.47

Stock options for 227,075 shares of common stock were not considered in computing diluted earnings per common share for the three and nine months ended September 30, 2011 and stock options for 237,547 and 223,547 shares of common stock were not considered in computing diluted earnings per common share for the three and nine months ended September 30, 2010 because they were anti-dilutive.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

September 30, 2011

NOTE (4) Securities

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolios at September 30, 2011 and December 31, 2010 and the corresponding amounts of unrealized gains which are recognized in accumulated other comprehensive income (loss), for available-for-sale investment securities, were as follows:

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available-for-sale				
Residential mortgage-backed	$ 8,113	$ 499	$	$ 8,612
Total available-for-sale	$ 8,113	$ 499	$	$ 8,612
Held-to-maturity				
Residential mortgage-backed	$ 10,000	$ 429	$	$ 10,429
U.S. Government and federal agency	1,000	80		1,080
Total held-to-maturity	$ 11,000	$ 509	$	$ 11,509

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
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

The amortized cost and fair value of the investment securities portfolios are shown by contractual maturity at September 30, 2011. 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	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity	(In thousands)			
Within one year	$	$	$	$
One to five years			1,000	1,080
Five to ten years				
Beyond ten years				
Residential mortgage-backed	8,113	8,612	10,000	10,429
Total	$ 8,113	$ 8,612	$ 11,000	$ 11,509

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

September 30, 2011

Securities pledged at September 30, 2011 and December 31, 2010 had a carrying amount of $11.0 million and $12.7 million and were pledged to secure public deposits and FHLB advances. At September 30, 2011 and December 31, 2010, 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 three and nine months ended September 30, 2011 and 2010.

There were no securities with unrealized losses at September 30, 2011 and December 31, 2010. We evaluate securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such 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 our intent and ability to retain our 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, we consider 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.

NOTE (5) Loans Receivable Held-for-Sale, Net

Loans receivable held-for-sale at September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
	(In thousands)	
Multi-family residential	$ 6,463	$ 16,217
Commercial real estate	2,064	5,067
Church	7,993	9,408
Valuation allowance for unrealized losses	(1,308)	(1,281)
Loans receivable, held for sale, net	$ 15,212	$ 29,411

Loans receivable held-for-sale, net, consisted of multi-family, commercial real estate and church 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 $5.5 million, net of charge-offs of $823 thousand and a $910 thousand valuation allowance, as of September 30, 2011 and totaled $5.1 million, net of charge-offs of $414 thousand and a $769 thousand valuation allowance, at December 31, 2010. 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 $3.8 million, net of a $398 thousand valuation allowance, as of September 30, 2011 and 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 $266 thousand, net of charge-off of $292 thousand, was transferred to REO during the nine months ended September 30, 2011.

Net lower of cost or market write-downs on non-performing loans receivable held-for-sale totaled $667 thousand for the nine months ended September 30, 2011, compared to $817 thousand for the same period in 2010. Additionally, during the nine months ended September 30, 2011 and 2010, we increased our valuation allowance by $61 thousand and $286 thousand, respectively, on some of our loans held for sale that are still considered performing loans.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

September 30, 2011

NOTE (6) Loans Receivable

Loans at September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010
	(In thousands)	
Real estate:		
One to four units	$ 77,876	$ 82,764
Five or more units	111,294	128,534
Commercial real estate	64,094	72,770
Church	92,149	97,634
Construction	4,230	5,421
Commercial:		
Sports	2,000	5,768
Other	5,876	6,410
Consumer:		
Loan on savings	1,006	3,259
Other	13	29
Total gross loans receivable	358,538	402,589
Less:		
Loans in process	119	371
Net deferred loan fees (costs)	(883)	(889)
Unamortized discounts	18	33
Allowance for loan losses	19,805	20,458
Loans receivable, net	$ 339,479	$ 382,616

The following table presents the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2011:

	For the three months ended September 30, 2011							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							
Beginning balance	$ 4,229	$ 2,892	$ 6,253	$ 7,197	$ 68	$ 1,538	$ 68	$ 22,245
Provision for loan losses	181	249	204	564	(1)	2,627	(10)	3,814
Recoveries							15	15
Loans charged off	(519)	(289)	(207)	(1,623)		(3,631)		(6,269)
Ending balance	$ 3,891	$ 2,852	$ 6,250	$ 6,138	$ 67	$ 534	$ 73	$ 19,805

	For the nine months ended September 30, 2011							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							
Beginning balance	$ 4,579	$ 2,469	$ 3,493	$ 6,909	$ 74	$ 1,300	$ 1,634	$ 20,458
Provision for loan losses	(64)	821	3,573	1,041	(7)	2,865	259	8,488
Recoveries							23	23
Loans charged off	(624)	(438)	(816)	(1,812)		(3,631)	(1,843)	(9,164)
Ending balance	$ 3,891	$ 2,852	$ 6,250	$ 6,138	$ 67	$ 534	$ 73	$ 19,805

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

September 30, 2011

Activity in the allowance for loan losses for the three and nine months ended September 30, 2010 was as follows:

	For the three months ended September 30, 2010	For the nine months ended September 30, 2010
	(In thousands)	
Beginning balance	$ 18,462	$ 20,460
Provision for loan losses	1,740	2,623
Recoveries	3	3
Loans charged off	(1,723)	(4,604)
Ending balance	$ 18,482	$ 18,482

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2011 and December 31, 2010:

	September 30, 2011							
	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	$ 858	$ 139	$ 3,259	$ 1,927	$	$ 285	$	$ 6,468
Collectively evaluated for impairment	3,033	2,713	2,991	4,211	67	249	73	13,337
Total ending allowance balance	$ 3,891	$ 2,852	$ 6,250	$ 6,138	$ 67	$ 534	$ 73	$ 19,805
Loans:								
Loans individually evaluated for impairment	$ 13,393	$ 4,277	$ 12,340	$ 30,169	$ 313	$ 285	$	$ 60,777
Loans collectively evaluated for impairment	64,483	107,017	51,754	61,980	3,917	7,591	1,019	297,761
Total ending loans balance	$ 77,876	$ 111,294	$ 64,094	$ 92,149	$ 4,230	$ 7,876	$ 1,019	$ 358,538

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	4,156	2,400	2,558	4,791	74	358	93	14,430
Total ending allowance balance	$ 4,579	$ 2,469	$ 3,493	$ 6,909	$ 74	$ 1,300	$ 1,634	$ 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

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

September 30, 2011

The following table presents information related to impaired loans by class of loans as of and for the nine months ended September 30, 2011:

	September 30, 2011					
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
	(In thousands)					
With no related allowance recorded:						
One to four units	$ 5,686	$ 4,082	$	$ 4,922	$	$
Five or more units	3,393	3,306		2,239		
Commercial real estate	7,586	7,221		10,444	134	132
Church	17,286	15,324		15,660	93	92
Construction	313	313		317		
Commercial:						
Sports	4,000			3,336		
Consumer:						
Loan on savings				1,035		
With an allowance recorded:						
One to four units	9,649	9,311	858	5,236	227	227
Five or more units	971	971	139	742	18	18
Commercial real estate	5,119	5,119	3,259	2,173		
Church	15,099	14,845	1,927	14,130	486	464
Commercial:						
Other	285	285	285	259		
Total	$ 69,387	$ 60,777	$ 6,468	$ 60,493	$ 958	$ 933

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs. Interest income recognized during impairment represents interest income earned on performing TDRs. Cash-basis interest income recognized represents cash received for interest payments on performing TDRs.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

September 30, 2011

The following table presents information related to impaired loans by class of loans as of December 31, 2010:

	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
Other			
Consumer:			
Loan on savings	2,249	2,249	1,525
Other	16	16	16
Total	$ 61,387	$ 58,032	$ 6,028

	For the nine months ended September 30, 2010 (In thousands)
Average recorded investment in impaired loans	$ 49,146
Interest income recognized during impairment	1,062
Cash basis interest income recognized	826

The following table presents the recorded investment in nonaccrual loans by class of loans as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
	(In thousands)	
Loans receivable, held for sale:		
Five or more units	$ 1,559	$ 385
Commercial real estate	413	

Church	4,436	5,533
Loans receivable, net:		
One to four-units	8,095	6,227
Five or more units	3,888	1,865
Commercial real estate	9,487	10,321
Church	19,481	12,748
Construction	313	320
Commercial:		
Sports		3,768
Other	285	
Consumer:		
Loan on Savings		2,249
Other		16
Total nonaccrual loans	$ 47,957	$ 43,432

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

September 30, 2011

There were no loans 90 days or more delinquent that were accruing interest as of September 30, 2011 or December 31, 2010.

The following tables present the aging of the recorded investment in past due loans, including loans held for sale, as of September 30, 2011 and December 31, 2011 by class of loans:

	September 30, 2011				
	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)				
Loans receivable, held for sale:					
Five or more units	$ 991	$	$ 1,559	$ 2,550	$ 3,913
Commercial real estate	274		413	687	1,377
Church	778		4,436	5,214	2,779
Loans receivable, net:					
One to four units	1,643	1,926	8,095	11,664	66,212
Five or more units	172		3,888	4,060	107,234
Commercial real estate	2,776		9,487	12,263	51,831
Church	3,339	2,757	19,481	25,577	66,572
Construction	120		313	433	3,797
Commercial:					
Sports					2,000
Other	131	27	285	443	5,433
Consumer:					
Loan on savings					1,006
Other					13
Total	$ 10,224	$ 4,710	$ 47,957	$ 62,891	$ 312,167

	December 31, 2010				
	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)				
Loans receivable, held for sale:					
Five or more units	$ 1,209	$	$ 385	$ 1,594	$ 14,623
Commercial real estate					5,067
Church			5,533	5,533	3,875
Loans receivable, net:					
One to four units	$ 2,716	$ 71	$ 6,227	$ 9,014	$ 73,750
Five or more units	805	1,068	1,865	3,738	124,796

Commercial real estate	769	1,287	10,321	12,377	60,393
Church	12,914	5,230	12,748	30,892	66,742
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

Troubled Debt Restructurings

On July 1, 2011, the Company adopted the guidance in ASU, 2011-02, A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring which clarifies the guidance on a creditor s evaluation of whether it has granted a concession in a debt restructuring and whether the debtor is experiencing financial difficulties in evaluating whether the debt restructuring constitutes a troubled debt restructuring. The guidance in ASU 2011-02 was effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying this guidance, the Company did not identify receivables that were newly considered impaired.

The Company has allocated $1.4 million and $1.6 million of specific reserves for loans the terms of which have been modified in troubled debt restructurings and were performing as of September 30, 2011 and December 31, 2010. At September 30, 2011, loans classified as a TDR totaled $36.4 million, of which $15.6 million were included in nonaccrual loans and $20.8 million were on accrual status. 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. TDRs on accrual status are comprised of loans that were accruing at the time of restructuring or loans that have complied with the terms of their restructured agreements for a satisfactory period of time, and for which the Bank anticipates full repayment of both principal and interest. TDRs that are on non-accrual can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments as modified. As of September 30, 2011 and December 31, 2010, the Company has no commitment to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the nine months ending September 30, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans involved a reduction of the stated interest rate of the loan for periods ranging from 18 months to 5 years.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

September 30, 2011

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ending September 30, 2011:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
One to four units	6	$ 4,354	$ 4,360
Five or more units	1	494	459
Commercial real estate	1	418	418
Church	7	7,441	6,915
Total	15	$ 12,707	$ 12,152

The troubled debt restructurings described above increased the allowance for loan losses by $652 thousand and resulted in charge offs of $1.0 million during the nine months ending September 30, 2011.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the nine months ending September 30, 2011:

	Number of Loans	Pre-Modification Outstanding Recorded Investment
	(Dollars in thousands)	
Commercial real estate	1	$ 418
Total	1	$ 418

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above resulted in a charge off of $207 thousand during the nine months ending September 30, 2011.

The terms of certain other loans were modified during the nine months ending September 30, 2011 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of September 30, 2011 of $3.2 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or an extension of the maturity date for periods ranging from 3 months to 10 years at a stated rate of interest equal to the current market rate for new debt with similar risk.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the company s internal underwriting policy.

Credit Quality Indicators

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:

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

September 30, 2011

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.

Loss. Loans classified as loss are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans as of September 30, 2011 and December 31, 2010 is as follows:

	As of September 30, 2011				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Loss**
	(In thousands)				
One to four units	$ 64,553	$ 3,058	$ 10,265	$	$
Five or more units	99,247	6,515	5,532		
Commercial real estate	42,146	6,379	15,491	79	
Church	38,443	11,611	42,054	41	
Construction	1,046	2,871	313		
Commercial:					
Sports		2,000			
Other	2,600	2,892	384		
Consumer:					
Loan on savings	1,006				
Other	13				
Total	$ 249,053	$ 35,326	$ 74,039	$ 120	$

	As of December 31, 2010				
	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